

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-----------------------------------|---|------------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name City of Detroit | County Wayne County |
| Fiscal Year End June 30, 2006 | Opinion Date February 25, 2008 | Date Audit Report Submitted to State February 28, 2008 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations) or the ICOFR Opinion, see next paragraph.


As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* unless reported as a "NO" response below. "NO" responses have been disclosed in the financial statements, including the notes, the report of comments and recommendations, or the Independent Auditors' report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. "Yes" responses indicate that no instances of noncompliance came to our attention.

This report is intended solely for the information and use of the State of Michigan Treasurer, the Mayor, the Council, and Management of the City of Detroit and is not intended to be and should not be used by anyone other than these specified parties.

| | YES | NO | |
|-----|-------------------------------------|-------------------------------------|--|
| | | | Check each applicable box below. (See instructions for further detail.) |
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury, to the best of our knowledge and as represented by management. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds, to the best of our knowledge and as represented by management. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division, to the best of our knowledge and as represented by management. |
| 7. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements, to the best of our knowledge and as represented by management. |
| 9. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). All required authorizations were not received for certain expenditure transactions. |
| 10. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. The only defalcations which came to our attention were those as investigated and reported by the City of Detroit, Auditor General. |
| 11. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The audit opinion is UNQUALIFIED. The Opinion, along with the complete financial statements MUST be read. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute, to the best of our knowledge and as represented by management. As required by City charter. |
| 15. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| We have enclosed the following: | | Enclosed | Not Required (enter a brief justification) | |
|--|-------------------------------|-------------------------------------|--|-----------------------------|
| Financial Statements | | <input checked="" type="checkbox"/> | We have enclosed at Management's direction the City of Detroit, June 30, 2006 Comprehensive Annual Financial Report | |
| The letter of Comments and Recommendations | | <input checked="" type="checkbox"/> | We have enclosed at Management's direction the Independent Auditors' report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | |
| Other (Describe) | | <input checked="" type="checkbox"/> | As stated in the first paragraph of our opinion, "these financial statements are the responsibility of the City of Detroit's management. Our responsibility is the express opinions on these financial statements based on our audits." Questions on the financial statements should be directed to City Management. | |
| Certified Public Accountant (Firm Name) KPMG LLP | | | Telephone Number 313-230-3335 | |
| Street Address 150 West Jefferson, Suite 1200 | | | City, Detroit | State MI Zip 48226 |
| Authorizing CPA Signature  | Printed Name Sean C Keenan | | License Number 11010112539 | |

City of Detroit, Michigan
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Kwame M. Kilpatrick
Mayor



Prepared by the Finance Department
Roger Short, CPA

Finance Director/Chief Financial Officer

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PHOTO CREDITS:

All photographs courtesy of City of Detroit – Communications and Creative Services Department.

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INTRODUCTORY

The Introductory Section contains:

Letter of Transmittal
GFOA Certificate of Achievement for Excellence in Financial Reporting
Auditor General's Letter
List of Principal Officials
City of Detroit Organizational Chart



CITY OF DETROIT
FINANCE DEPARTMENT

1200 COLEMAN A. YOUNG MUNICIPAL CENTER
DETROIT, MICHIGAN 48226

February 25, 2008

The City of Detroit
The Honorable Mayor Kwame M. Kilpatrick and
The Honorable City Council

The management and staff of the Finance Department is pleased to submit the City of Detroit's (the "City") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006 along with the Independent Auditor's Report.

INTRODUCTION TO THE REPORT

Responsibility: The Finance Department prepares the City's CAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including the disclosures. To the best of our knowledge and belief, the information contained in the City's CAFR is accurate in all material respects and reported in a manner that fairly presents the financial position and results of operations of the City's primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain a reasonable understanding of the City's financial affairs have been included.

Adherence to Generally Accepted Accounting Principles: We have prepared the financial statements contained in the City's CAFR in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Government and by the City's Finance Department in accordance with the financial reporting principles and standards of the Governmental Accounting Standards Board (GASB). The City also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Report: The City's CAFR is divided into three major sections: introductory, financial and statistical:

- The introductory section includes this letter, the Auditor General's letter, the list of principal officials and the City's organization chart.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A), which provides an introduction, overview and analysis to the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and the fund financial statements for government funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about the infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules.
- The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.

Independent Auditors: The City's Charter requires the Auditor General of the City to audit the transactions of all City agencies at least once every two years. The Auditor General is appointed by the City Council for a 10-year term. Additionally, state laws require the City to have its financial statements audited by an independent, outside auditor once every five years. However, beginning with the fiscal year 1980, the Mayor and City Council agreed to have an annual financial statement audit by an independent auditor. The independent auditor's report on the financial statements is included in the financial section of this report. Also, the City must also comply with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

PROFILE OF THE GOVERNMENT

Background and Overviews: Detroit, Michigan's largest city is located in the County of Wayne in the southeastern section of the State's lower peninsula. The City covers approximately 140 square miles and accounts for nearly half of the population of Wayne County. The City is internationally known for automotive manufacturing and trade. Detroit is located on an international waterway, which is linked via the St. Lawrence Seaway to seaports around the world.

The City was incorporated in 1806, and is a home rule city under State law. The organizational structure of the City is as follows:

Executive Branch: The Mayor heads the executive branch. The citizens of Detroit elect the Mayor to a four-year term. The City Charter grants the Mayor broad managerial powers including the authority to appoint department directors, deputy directors, and other executive branch officials. The responsibility to implement most programs, provide services, activities, and manage day-to-day operations is delegated by the Charter to the executive branch.

Legislative Branch: The legislative branch is comprised of the City Council and its agencies. The nine members of City Council are also elected to a four-year term. Many significant decisions, including budget appropriations, procurement of goods and services, and certain policy matters must be approved by the City Council.

Other Agencies: The City Clerk's Office and the Election Commission are not classified under either of the two branches mentioned above.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

A number of significant initiatives, outlined below, are underway in the City that has had a positive effect on the City's economic health and its ability to provide services to residents and businesses.

New Housing Starts: For the first time in decades, Detroit led our region in new housing starts during this past fiscal year. The City expects to double that pace and break ground for more than 2,400 new units.

Downtown Occupancy: Our downtown office occupancy in class "A" buildings has been raised to more than 90 percent. And nearly 500,000 square feet of additional office space is under construction downtown with three-fourths of that pre-leased.

Entertainment Industry: The entertainment industry is growing. We saw 33 new restaurants open in the past year and our casinos are spending well over \$1 billion to create three permanent facilities that will include 1,200 new hotel rooms downtown. In late October, MGM Grand Detroit opened to rave reviews and revenues are up nearly 40% in the first month of operations. No real impact on the other two casinos' revenues at this time. Motor City Casino hotel opened in late November.

East Riverfront: Our east riverfront is bustling with activity. Construction continues on the riverwalk.

Housing Prices: Housing prices have risen 46 percent in Detroit in the four years ended as of June 30, 2006 compared with 27 percent nationally and 26 percent in the State of Michigan.

OUR VIEW OF THE FUTURE

Detroit is positioned to be a major force in this new millennium. If we make courageous decisions as the times demand of us, the result will be a Next Detroit every bit as great, if not greater than the Detroit that put the world on wheels.

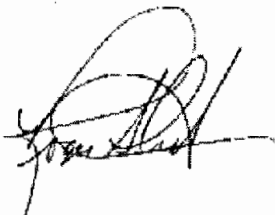
AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting: The City is pleased that the Government Finance Officers Association (GFOA) recognized Detroit with the prestigious award for excellence in financial reporting for our 2004-2005 CAFR.

This is the third consecutive year that the City has achieved this award. In order to be awarded a Certificate of Achievement, a government must publish a well-organized and easily understandable CAFR in accordance with Generally Accepted Accounting Principles (GAAP). A certificate is valid for a period of one year.

Acknowledgments: I wish to express my appreciation to the entire staff of all accountants and fiscal staff within the City of Detroit, the City's Finance Department, and the fiscal staff at each of our component units whose professionalism, dedication and efficiency contributed to the preparation of this report. Also, thanks to the Mayor's Office, Members of City Council and the Auditor General for their interest and support in planning and conducting the City's financial affairs.

Sincerely,

A handwritten signature in black ink, appearing to read 'Roger Short', with a stylized flourish at the end.

Roger Short, CPA
Chief Financial Officer



City of Detroit
OFFICE OF THE AUDITOR GENERAL
COLEMAN A. YOUNG MUNICIPAL CENTER
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LOREN E. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL'S LETTER

December 18, 2007

The Honorable Mayor Kwame M. Kilpatrick
and Members of the City Council
City of Detroit, Michigan

The basic financial statements included in the City's Comprehensive Annual Financial report for the fiscal year ended June 30, 2006, were audited by KPMG LLP under contract with the City of Detroit, Auditor General. The audit of these financial statements and the resulting Auditors' opinion satisfies the requirements of the City Charter under Section 4-205.

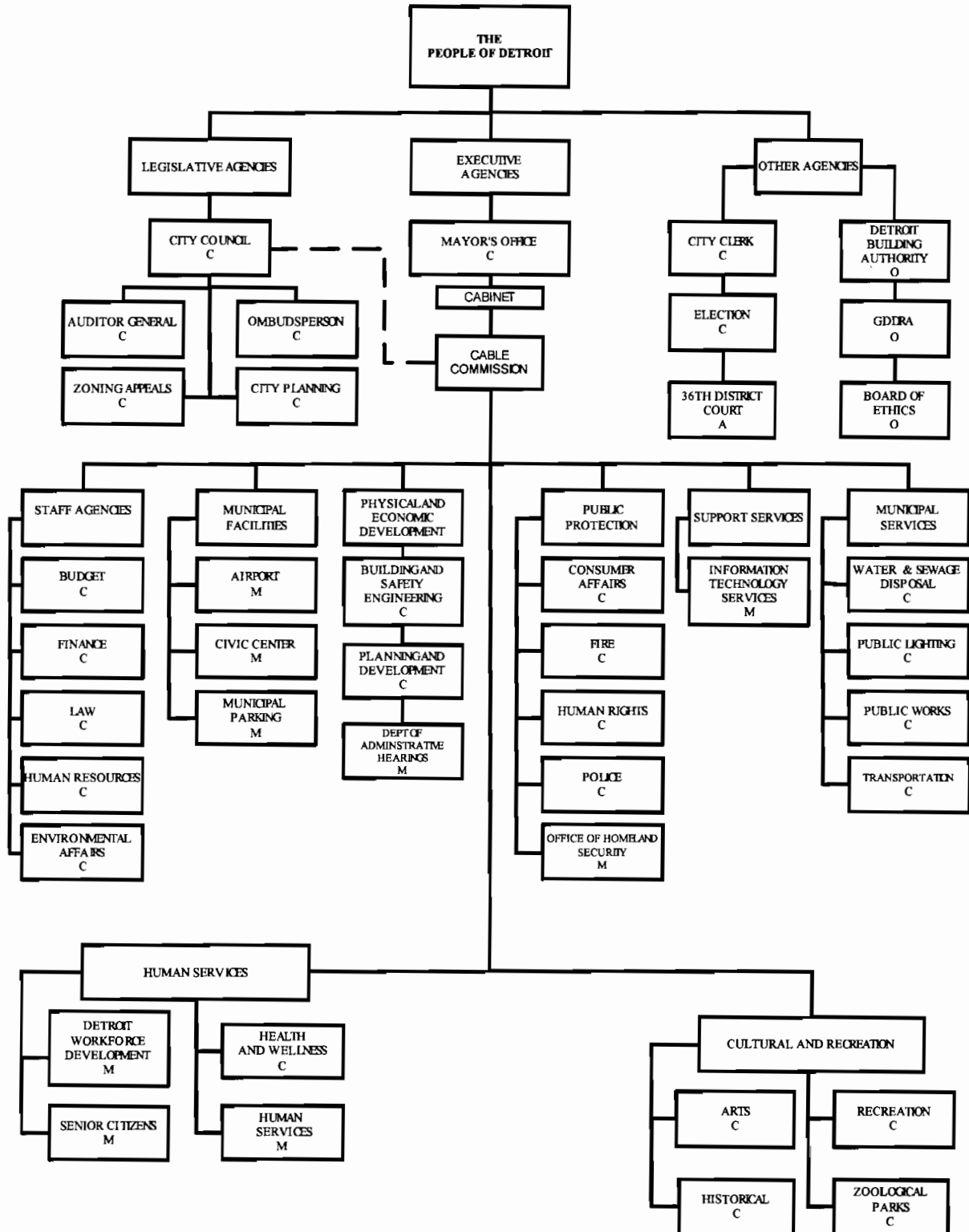
Respectfully,

A handwritten signature in cursive script that reads "Loren E. Monroe".

Loren E. Monroe, CPA
Auditor General

CITY OF DETROIT ORGANIZATION CHART

June 30, 2006



ESTABLISHED UNDER:
A- STATE ACT
C- CITY CHARTER
M- MAYOR'S EXECUTIVE
ORGANIZATION PLAN
O- CITY ORDINANCE

F I N A N C I A L

The Financial Section contains:

**Independent Auditors' Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to Basic Financial Statements
Required Supplementary Information**

INDEPENDENT
AUDITORS’
REPORT



KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

The Honorable Mayor Kwame Kilpatrick
and
The Honorable Members of the City Council
City of Detroit, Michigan:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Detroit Brownfield Redevelopment Authority, Downtown Development Authority, Economic Development Authority, Museum of African American History, Detroit Transportation Corporation, and Greater Detroit Resource Recovery Authority, which represent 87.8% and 76.4%, respectively, of the assets and revenues of the discretely presented component units. We also did not audit the financial statements of the Retirement Systems, which represent 96.5% and 73.2%, respectively, of the assets and expenses/expenditures/deductions of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinions, insofar as they related to the amounts included in the aggregate discretely presented component units and aggregate remaining fund information, are based on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The financial statements of the Detroit Public Library (Library) have not been audited, and we were not engaged to audit the Library's financial statements as part of our audit of the City's basic financial statements. The Library's financial activities are included in the City's financial statements as a discretely presented component unit and represent 8.6%, 18.7%, and 15.2% of the assets, net assets, and revenues, respectively, of the City's aggregate discretely presented component units.



As described in Note I.E.13, the City excluded the reporting in its financial statements of the Detroit Housing Commission and the School District of the City of Detroit which were, previously reported as discretely presented component units.

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Library's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units for the City, as of June 30, 2006, and the changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management Discussion and Analysis on pages 6 through 22, the budgetary comparison information on pages 113 through 116 and the schedules of employer contributions and the schedules of funding progress on page 118 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Detroit's basic financial statements. The introductory section, combining nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

Detroit, Michigan
February 25, 2008

MANAGEMENT'S

DISCUSSION

AND ANALYSIS

(MD&A)

(UNAUDITED)

The following is a discussion and analysis of the financial performance of the City of Detroit (the City), providing an overview of the activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter at the front of this report and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The primary government's total net assets increased by \$75.5 million and exceeded its liabilities at June 30, 2006 by \$1.7 billion (net assets).
- At June 30, 2006, the City's governmental activities had net assets of \$23.8 million, an increase of \$17.3 (266.5 percent) million from June 30, 2005.
- The City's business-type activities had ending net assets of \$1.7 billion, an increase of \$58.2 million (3.6 percent) from the fiscal year ended June 30, 2005.
- At June 30, 2006, the General Fund had a total fund deficit of \$107.2 million, an increase of \$73.6 million from the prior year. Decreased revenue collections contributed to the results. In addition, the Unreserved Fund Balance had a \$173.7 cumulative deficit at June 30, 2006 compared with the \$155.4 million deficit at the end of fiscal year 2005.
- The City's total bonded debt decreased by \$52.4 million (0.9 percent) during the fiscal year ended June 30, 2006.
- In June 2006, the City issued Pension Obligation Certificates (Series 2006 POC) totaling \$948.5 million and used the proceeds to redeem \$904.0 million of the Series 2005 POCs. The remaining \$44.5 million of the POC were added to the government-wide balance sheet.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City of Detroit, Michigan's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the City, as a whole, and about its activities that should help answer this question: How has the City's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (pages 28 and 29) presents all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the City's financial position is improving or not.

The Statement of Activities (pages 30 and 31) presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- **Governmental Activities** – Most of the City's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.
- **Business-type Activities** – The City charges fees to customers to help it cover all or most of the cost of certain services it provides.
- **Discretely Presented Component Units** – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. There are nine legally separate organizations that are reported as discretely presented component units of the City.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 58 of the report.

Fund Financial Statements

The fund financial statements begin on page 32 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 122 begins the individual fund data for the non-major funds. The City's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- *Governmental funds* - Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund, General Retirement System Service Corporation, Police and Fire Retirement System Corporation, and Other Governmental Funds.
- *Proprietary funds* - When the City charges customers for services it provides, whether to outside customers or to other agencies within the City, these services are generally reported in proprietary funds. Proprietary (e.g., Enterprise) funds utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public (e.g., Automobile Parking Fund).
- *Fiduciary funds* - The City acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City's fiduciary activities are reported in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets (pages 48 and 49). These funds, which include pension (and other employee benefit) and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the City to finance its operations.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

Additional Required Supplementary Information

The Required Supplementary Information that follows the basic financial statements further explains and supports the information in the financial statements.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds, and non-major discretely presented component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased \$75.5 million (4.6 percent) over the course of this fiscal year's operations. The net assets of the governmental activities increased \$17.3 million (266.5 percent) and business-type activities had an increase of \$58.2 million (3.6 percent).

Summary of Net Assets
For Fiscal Year Ended June 30, 2006 and 2005
(In Thousands)

| | Governmental | | Business-type | | Total | |
|---|---------------------|------------------|----------------------|---------------------|---------------------------|---------------------|
| | Activities | | Activities | | Primary Government | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and other non-current assets | \$ 1,819,873 | \$ 1,792,486 | \$ 1,594,638 | \$ 1,797,712 | \$ 3,414,511 | \$ 3,590,199 |
| Capital assets | 1,510,025 | 1,403,043 | 5,346,012 | 5,105,722 | 6,856,037 | 6,508,764 |
| Total assets | 3,329,898 | 3,195,529 | 6,940,650 | 6,903,434 | 10,270,548 | 10,098,963 |
| Current liabilities | 698,091 | 671,375 | 324,749 | 329,035 | 1,022,840 | 1,000,410 |
| Long-term liabilities | 2,607,964 | 2,517,648 | 4,938,689 | 4,955,407 | 7,546,653 | 7,473,055 |
| Total liabilities | 3,306,055 | 3,189,023 | 5,263,438 | 5,284,442 | 8,569,493 | 8,473,465 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 603,086 | 562,312 | 914,032 | 1,050,443 | 1,517,118 | 1,612,755 |
| Restricted | 29,492 | 30,488 | 385,381 | 287,779 | 414,873 | 318,267 |
| Unrestricted (deficit) | (608,735) | (586,294) | 377,799 | 280,770 | (230,936) | (305,524) |
| Total net assets | \$ 23,843 | \$ 6,506 | \$ 1,677,212 | \$ 1,618,992 | \$ 1,701,055 | \$ 1,625,498 |

The largest component, \$1.5 billion of the City's net assets is investment in capital assets (e.g., land, buildings, equipment, infrastructure and others), net of any related debt outstanding that was needed to acquire or construct the assets.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

Restricted net assets totaling \$414.9 million are the next largest component. These are resources subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The City had an unrestricted accumulated deficit of \$230.9 million as of June 30, 2006. A positive balance or surplus in the unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance or deficit means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

The following condensed financial information was derived for the government-wide Statement of Activities and reflects how the City's net assets changed during the fiscal year:

Changes in Net Assets
For Fiscal Year Ended June 30, 2006 and 2005
(In Thousands)

| | Governmental | | Business-type | | Total | |
|-------------------------------|---------------------|------------------|----------------------|----------------|---------------------------|------------------|
| | Activities | | Activities | | Primary Government | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 340,649 | \$ 407,969 | \$ 677,975 | \$ 486,073 | \$ 1,018,624 | \$ 894,042 |
| Operating grants | 245,062 | 246,249 | 73,802 | 88,111 | 318,864 | 334,360 |
| Capital grants | 91,807 | 72,029 | - | 15,081 | 91,807 | 87,110 |
| General revenues | | | | | | |
| Property Taxes | 243,622 | 239,508 | - | - | 243,622 | 239,508 |
| Municipal Income Tax | 284,111 | 282,502 | - | - | 284,111 | 282,502 |
| Utility User Tax and | | | | | | |
| Gas & Weight Tax | 122,824 | 116,416 | - | - | 122,824 | 116,416 |
| Wagering Tax | 156,589 | 137,970 | - | - | 156,589 | 137,970 |
| Hotel and Liquor Tax | 16,288 | 16,311 | - | - | 16,288 | 16,311 |
| Shared Taxes | 280,818 | 282,914 | - | - | 280,818 | 282,914 |
| Other Local Taxes | 22,784 | 11,713 | - | - | 22,784 | 11,713 |
| Investment Earnings | 18,397 | 14,465 | 39,194 | 22,809 | 57,591 | 37,274 |
| Miscellaneous | 22,470 | 6,432 | 28,850 | (13,970) | 51,320 | (7,538) |
| Total Revenues | 1,845,421 | 1,834,478 | 819,821 | 598,104 | 2,665,242 | 2,432,582 |
| Expenses | | | | | | |
| Public Protection | 681,052 | 876,157 | - | - | 681,052 | 876,157 |
| Health | 177,364 | 170,040 | - | - | 177,364 | 170,040 |
| Education | 64,671 | 73,771 | - | - | 64,671 | 73,771 |
| Recreation and Culture | 69,192 | 75,145 | - | - | 69,192 | 75,145 |
| Economic Development | 95,642 | 114,865 | - | - | 95,642 | 114,865 |
| Transportation | 79,343 | 46,272 | - | - | 79,343 | 46,272 |
| Housing Supply and | | | | | | |
| Conditions | 14,738 | 17,981 | - | - | 14,738 | 17,981 |
| Physical Environment | 243,950 | 277,306 | - | - | 243,950 | 277,306 |
| Development and | | | | | | |
| Management | 240,246 | 214,747 | - | - | 240,246 | 214,747 |
| Interest on Long-term | | | | | | |
| Debt | 126,659 | 65,253 | - | - | 126,659 | 65,253 |
| Sewage Disposal | - | - | 311,304 | 192,421 | 311,304 | 192,421 |
| Transportation | - | - | 190,359 | 204,914 | 190,359 | 204,914 |
| Water | - | - | 282,149 | 195,086 | 282,149 | 195,086 |
| Automobile Parking | - | - | 19,474 | 26,296 | 19,474 | 26,296 |
| Airport | - | - | 3,044 | 3,141 | 3,044 | 3,141 |
| Total Expenses | 1,792,857 | 1,931,537 | 806,330 | 621,858 | 2,599,187 | 2,553,395 |
| Excess (deficiency) | | | | | | |
| Before Contributions and | | | | | | |
| Transfers | 52,564 | (97,059) | 13,491 | (23,754) | 66,055 | (120,813) |
| Contributions | - | - | 9,502 | 7,120 | 9,502 | 7,120 |
| Transfers | (35,227) | (89,585) | 35,227 | 89,585 | - | - |
| Increase/(decrease) in | | | | | | |

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

| | Governmental | | Business-type | | Total | |
|---------------------|---------------------|-------------|----------------------|--------------|---------------------------|--------------|
| | Activities | | Activities | | Primary Government | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Net Assets | 17,337 | (186,644) | 58,220 | 72,951 | 75,557 | (113,693) |
| Net Assets, July 1 | 6,506 | 193,150 | 1,618,992 | 1,546,041 | 1,625,498 | 1,739,191 |
| Net Assets, June 30 | \$ 23,843 | \$ 6,506 | \$ 1,677,212 | \$ 1,618,992 | \$ 1,701,055 | \$ 1,625,498 |

Governmental Activities

Net assets of the City's governmental activities increased \$17.3 million (266.5 percent) to reflect a balance of \$23.8 million. All of those net assets are either restricted to the purpose they can be used for or they are invested in capital assets (i.e., buildings, roads, bridges, etc.). Consequently, unrestricted net assets showed a \$608.7 million deficit at the end of this fiscal year.

Over 61.7 percent of the City's revenue comes from taxes. Total taxes increased by \$39.7 million (3.7 percent). Wagering taxes increased by \$18.6 million (13.5 percent).

Federal and State grants vary from year to year depending primarily on the level of spending for programs, construction, and other projects.

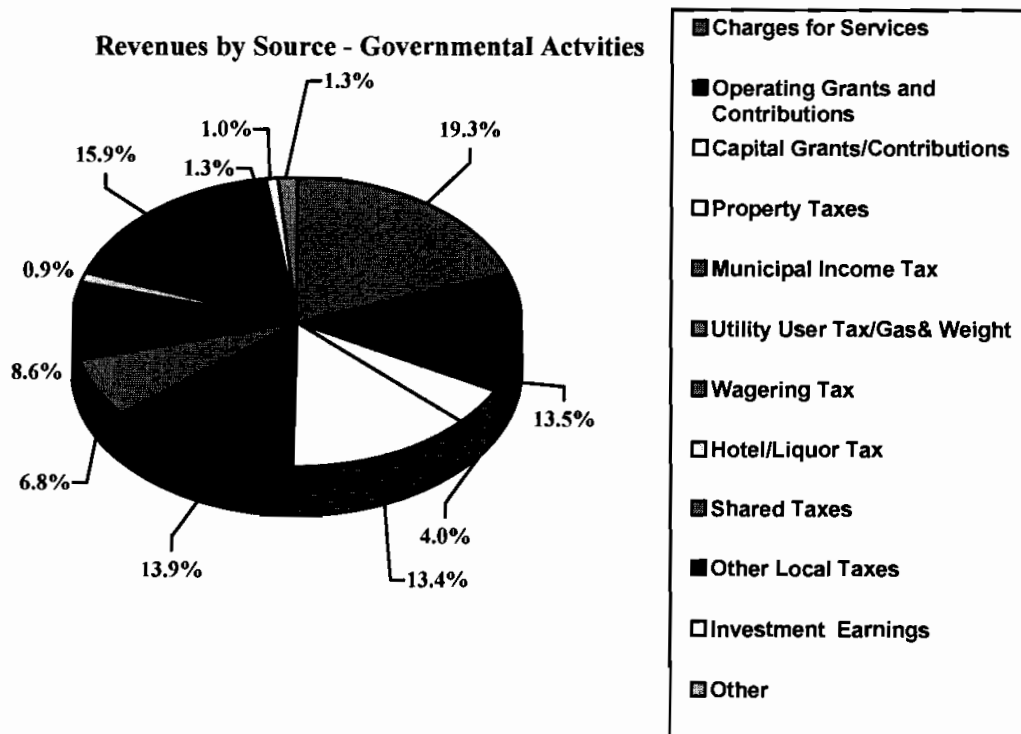
Expenses for governmental activities in 2006 were \$1.8 billion. This reflects a decrease of \$138.7 million (7.2 percent) over 2005. Public protection (police and fire protection) was the largest component of current expenses, accounting for 38.0 percent of total expenses. Public protection expenses have decreased by \$195.1 million (22.3 percent) over 2005 as a result of salary reductions and renegotiation of employee health care benefits. Physical Environment expenses decreased by \$33.4 million (12.1 percent) below 2005 as a result of cost reductions and restructuring of related services.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

The revenues from governmental activities were \$1.8 billion. The amount that taxpayers paid for these activities through City taxes was approximately \$846.2 million. Other funding for governmental activities was provided from the following sources:

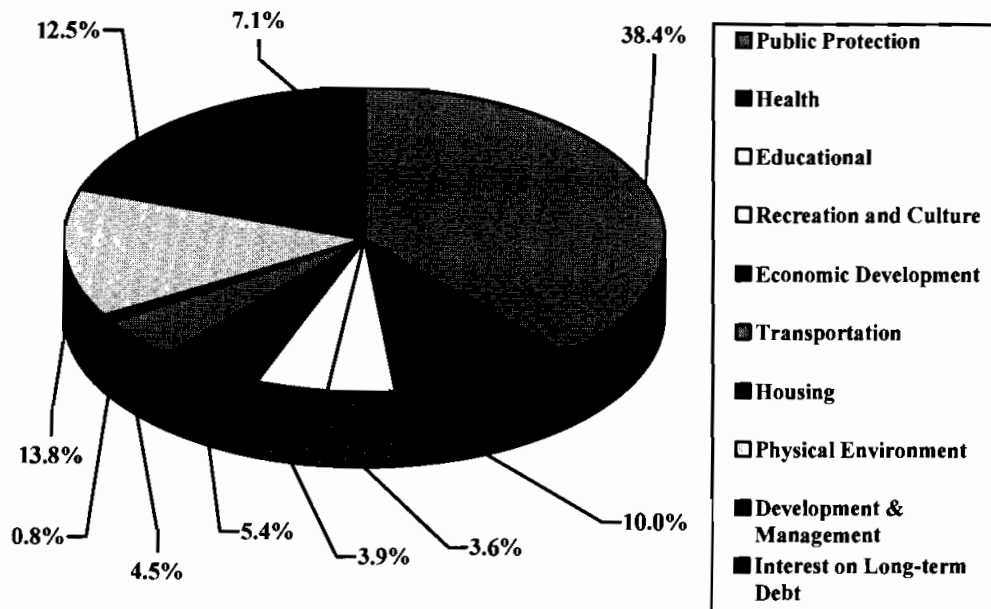
- User fees were paid by those who directly benefited from certain programs (\$340.6 million).
- Other governments and organizations subsidized certain programs with grants and contributions (\$319.1 million).
- Other revenues such as state aid, interest, and miscellaneous income funded the “public benefit” portion of various programs (\$321.7 million).

The following chart depicts revenues of the governmental activities for the fiscal year:



The following chart depicts expenses of the governmental activities for the fiscal year:

Expenses by Function Type - Governmental Activities



Business-type Activities

The business-type activities' net assets increased by \$58.2 million (3.6 percent) during the fiscal year. Factors contributing to these results included the following:

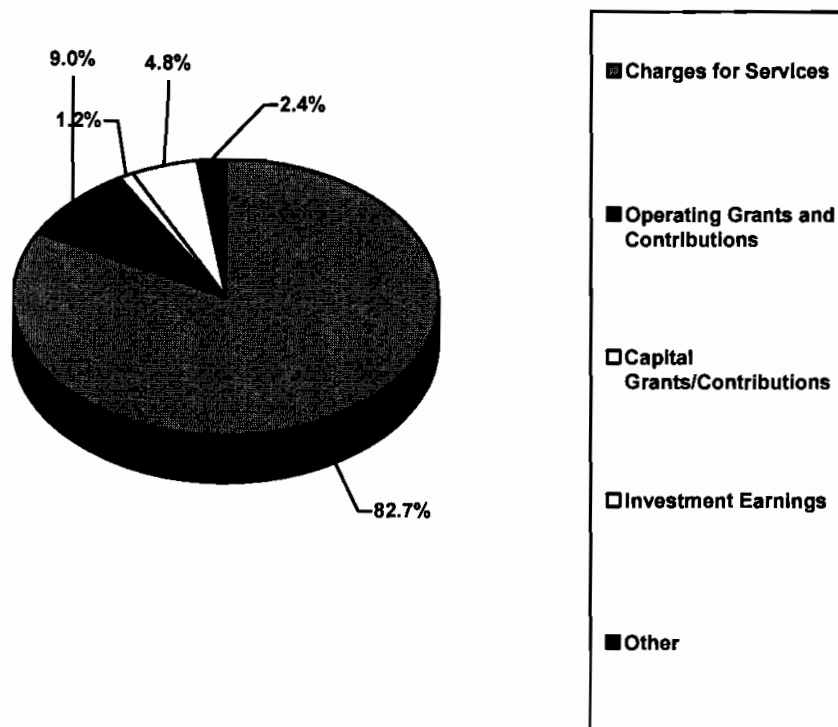
- The Water Fund had an increase in net assets of \$12.5 million because of the increase in water rates and better control of operating expenses.
- The Sewage Disposal Fund had an increase in net assets of \$62.6 million because of the increase in sewage rates and better control of operating expenses.
- The Transportation Fund had a decrease in net assets of \$6.5 million due to less capital assets acquired in the fiscal year and higher depreciation compared with the prior year. In addition, the application of GASB 42 resulted in the recognition of impaired assets that reduced the amount of net assets.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

- The sale of two (2) garage facilities held by the Automobile Parking Fund netted a gain of \$25.9 million, and net income of \$29.1 million, before transfers out of \$37.5 million.
- The Airport Fund (Non-Major Fund) finished the fiscal year with a decrease in net assets of \$2.0 million.

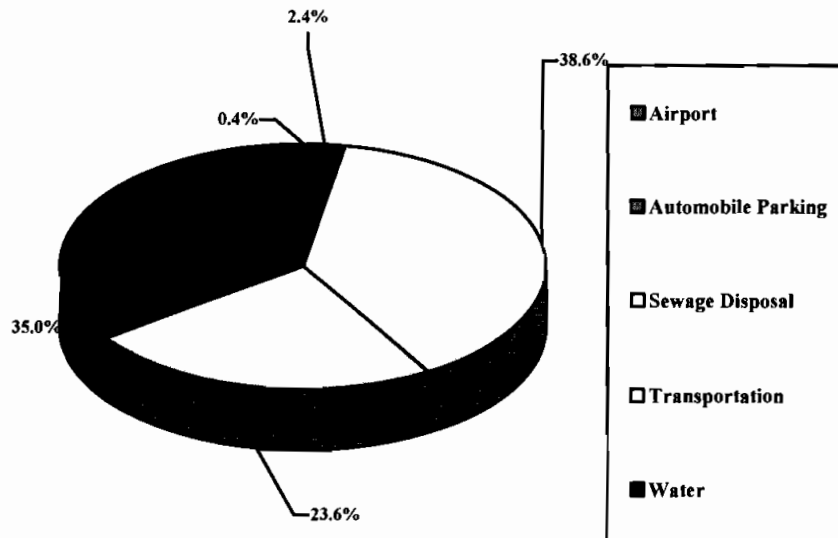
The following chart depicts revenues of the business-type activities for the fiscal year:

Revenues by Source - Business-type Activities



The following chart depicts expenses of the business-type activities for the fiscal year:

Expenses by Function Type - Business-type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$173.2 million. Of this amount, a deficit of \$96.4 million is unreserved fund balance. The remaining \$269.6 million is reserved for specific purposes, such as advances to component units, inventory, encumbrances, short-term loans and advances to other funds, risk management operations, motor vehicle operations, endowments and trusts, debt service and capital projects.

General Fund

The General Fund is the chief operating fund of the City. At the end of fiscal year 2006, the unreserved fund balance was a deficit of \$173.7 million with a combined (reserved and unreserved) total fund deficit of \$107.2 million. The fund balance decreased during the fiscal year by \$73.6 million (219.1 percent), primarily because expenditures and other financing uses exceeded revenues and other financing sources.

General Fund Budgetary Highlights:

The City's 2006 General Fund Budget is \$1.7 billion. The City's 2006 General Fund Budget contains no additions or material changes to existing taxes and fees and was approved by the City Council in June 2005.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

As of June 30, 2006, the General Fund's accumulated fund balance deficit was approximately \$173.7 million, which is an \$18.3 million (11.8 percent) increase over 2005. Within the 2005-2006 adopted budget, the City Council appropriated \$62.8 million for the prior years' deficit.

During the year, the estimated revenues in the budget exceeded actual revenues and other resources by \$333.2 million. The majority of this amount is attributable to grant revenues and the sale of real property being less than the final budgets. However, expenditures were less than budgeted estimates. Budgeted expenditures were approximately \$1.6 billion but actual expenditures were \$1.4 billion, a favorable variance of \$0.2 billion.

Differences between the original budget and the final amended budget consisted of a total net increase in estimated revenues of \$269.3 million and a total net increase in appropriations of \$66.8 million. The difference was offset by a total net increase in Other Financing Sources and Uses of \$202.5 million.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

A major reason for the increase in estimated revenues can be briefly summarized as follows:

- \$10.6 million increase in taxes, assessments, interest and penalties.
- \$215.1 million increase in grants (Federal, State and other).
- \$38.7 million increase in other revenue.

A major reason for the increase in appropriations included \$57.2 million of increases in Public Protection.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2006, the City had invested \$6.9 billion, net of accumulated depreciation, in a broad range of capital assets (see table below).

Capital Assets as of June 30, 2006 and 2005
(Net of Depreciation, In Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--------------------------|------------------------------------|---------------------|-------------------------------------|---------------------|-------------------------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land and Land Rights | \$ 417,464 | \$ 383,014 | \$ 38,079 | \$ 36,702 | \$ 455,543 | \$ 419,716 |
| Land Improvements | - | - | 48,100 | 47,747 | 48,100 | 47,747 |
| Building and Structures | 617,135 | 506,428 | 2,147,720 | 1,539,650 | 2,764,855 | 2,046,078 |
| Sewer and Water Lines | - | - | 870,080 | 900,236 | 870,080 | 900,236 |
| Machinery, Equipment | | | | | | |
| Fixtures and Vehicles | 145,701 | 91,775 | 1,785,394 | 937,817 | 1,931,095 | 1,029,592 |
| Works of Art | 29,788 | 29,788 | - | - | 29,788 | 29,788 |
| Infrastructure | 199,804 | 185,041 | - | - | 199,804 | 185,041 |
| Construction-in-Progress | 100,133 | 206,997 | 456,639 | 1,643,568 | 556,772 | 1,850,565 |
| Total | \$ 1,510,025 | \$ 1,403,043 | \$ 5,346,012 | \$ 5,105,720 | \$ 6,856,037 | \$ 6,508,763 |

Major capital projects during the current fiscal year included the following:

- The City expended \$11.6 million on waterfront redevelopment and casino development.
- The Department of Public Works expended \$21.6 million on capital activities for street construction and resurfacing.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

- The Police Department expended \$7.7 million on capital activities for renovation of precincts, acquisition of electronic equipment and vehicles.
- The Detroit Institute of Arts expended \$31.9 million on capital activities for expansion and renovation.
- The Fire Department expended \$3.5 million on capital activities for a new fire station.
- The Health Department expended \$1.9 million on capital activities for Herman Kiefer Building renovation.
- The Transportation Department expended \$9.3 million on capital activities to acquire land and buses.
- The Recreation Department expended \$17.5 million on capital activities for recreation facilities.
- The Automobile Parking Fund expended \$7.3 million on the renovation of parking garages.
- The City expended \$6.1 million for the 800 MHz communication system.

Outstanding Bonded Debt as of June 30, 2006 and 2005
(In Thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--------------------------|------------------------------------|---------------------|-------------------------------------|---------------------|-------------------------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| General obligation bonds | \$ 961,597 | \$ 977,817 | \$ - | \$ - | \$ 961,597 | \$ 977,817 |
| Revenue bonds | 114,183 | 125,013 | 4,683,420 | 4,708,886 | 4,796,603 | 4,833,899 |
| Total | \$ 1,075,780 | \$ 1,102,830 | \$ 4,683,420 | \$ 4,708,886 | \$ 5,758,200 | \$ 5,811,716 |

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt of \$5.8 billion outstanding. Of this amount, \$961.6 million are general obligation bonds backed by the full faith and credit of the City and \$4.7 billion are revenue bonds, commercial paper, loans, and other obligations of the City's business enterprises.

The City's total debt had decreased by \$52.4 million (0.9 percent) during fiscal year 2006. Governmental activities decreased by 2.5 percent, while business-type activities' debt decreased by 0.6 percent.

City of Detroit, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)

In June 2006, the City refinanced \$904 million of the POC issued in 2005 that were used to fund certain unfunded accrued actuarial liabilities. This resulted in a net increase of \$36.2 million and \$8.3 million in POC obligations for Governmental Activities and Business-type activities, respectively.

The GASB has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions* Statement No. 45. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other post employment benefits" (other than pensions). This change will cause the financial statements of the City to recognize the cost and related liability of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. For the City, this will result in increased expenses and a related liability, which will likely be significant.

The City is currently evaluating the effect Statement No. 45 will have on its financial statements. The City commissioned an actuarial valuation as of December 31, 2004. The present value of all benefits expected to be paid to current plan members as of December 31, 2004 is \$8.0 billion (\$3.9 billion for current retirees and \$4.1 billion for active employees). The actuarial accrued liability, which is the portion of the \$8.0 billion attributable to the service accrued by plan members as of December 31, 2004, is \$6.0 billion. As of December 31, 2004, there were no plan assets available to offset the liabilities of the plan. Statement No. 45 is effective for the year ending June 30, 2008.

The Michigan Constitution established the authority, subject to constitutional and statutory prohibition, for municipalities to incur debt for public purposes. The City is subject to the Home Rule Act, ACT 279 Public Acts of Michigan, 1909, as amended, which limits the net indebtedness incurred for all public purposes to as much as, but not to exceed, the greater of the following: (a) 10 percent of the assessed value of all the real and personal property in the City; or (b) 15 percent of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred, which exceeds 10 percent is, or has been, used solely for the construction or renovation of hospital facilities. Not all the General Bonded debt is subject to the general debt limitation, which is \$815 million. The City's legal debt limitation at June 30, 2006 was \$1.4 billion of which \$628 million is available for use.

The City's ratings on uninsured general obligation bonds as of June 30, 2006 were:

| | |
|--|-------------|
| Moody's Investors Service, Inc. | Baa2 |
| Standard and Poor's Corporation | BBB |
| Fitch IBCA, Inc. | BBB |

Additional information on the City's long-term debt can be found in Notes III, (B), 4. Long-Term Obligations; 5. Derivatives Not Reported at Fair Value; and 6. Other Information.

ECONOMIC CONDITION AND NEXT YEAR'S BUDGET

The City is currently experiencing a less favorable economic environment resulting from the continued decline in the manufacturing sector of the economy, partially offset by modest increases in leisure and hospitality, professional and business services, educational and health services, and construction. For 2005, Detroit's annual average unemployment rate was 14.0 percent. For 2006, Detroit's annual average unemployment rate had decreased to 13.7 percent.

Next Year's Budget

The 2006-2007 budget includes:

- A Solid Waste fee for solid waste pickup. Previously, homeowners paid 3 mills to offset refuse costs. Homeowners will pay \$300 annually. The fee will generate more than \$67.2 million, \$40 million more than the millage.
- A decrease in the General Fund's annual operating subsidy to the Transportation Fund. The budgeted subsidy has decreased from \$83.4 million to \$76.3 million, a reduction of \$7.1 million from 2005-2006.
- A General Services Department was established. A total of 628 positions were transferred from Agencies such as DPW, Recreation, Public Lightning, Health, Civic Center and Elections to create the department. This department includes the consolidation of fleet management, skilled trades (with the exception of the Apprentice Program), security, building and grounds maintenance that includes vacant lots and inventory management. This consolidation is anticipated to save \$4.5 million through coordinated purchasing and consolidated efforts.
- Anticipated savings of \$58 million City-wide through plan design and contribution changes, reduction in administrative fees and rates.

The 2006-2007 Budget has 657 fewer positions, including layoffs:

| Description | FY 2006-2007 | FY 2005-2006 | Variance |
|--------------------------|--------------|--------------|----------|
| General City | 9,564 | 10,203 | (639) |
| Enterprise Agencies | 5,530 | 5,548 | (18) |
| Total Budgeted Positions | 15,094 | 15,751 | (657) |

CONTACTING THE CITY'S FINANCE DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Additional copies of this report and other financial information can be obtained by visiting the Finance Department's Website at www.ci.detroit.mi.us. You can also contact the office by phone at (313) 224-2937.

The City's component units issue their own audited financial statements. These statements may be obtained by directly contacting the component unit. To obtain their phone numbers, you may call the Finance Department at (313) 224-2937.

BASIC
FINANCIAL
STATEMENTS
(BFS)

City of Detroit, Michigan
STATEMENT OF NET ASSETS
June 30, 2006

| | Primary Government | | | |
|--|----------------------------|-----------------------------|-------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents..... | \$ 74,951,662 | \$ 11,144,759 | \$ 86,096,421 | \$ 17,390,331 |
| Investments..... | 273,409,280 | 75,211,671 | 348,620,951 | 118,440,507 |
| Escrow Deposits..... | - | - | - | 21,486,849 |
| Accounts and Contracts Receivable: | | | | |
| Internal Balances..... | 28,331,159 | (28,331,159) | - | - |
| Due from Primary Government..... | - | - | - | 9,932,707 |
| Due from Component Units..... | 3,427,098 | - | 3,427,098 | - |
| Due from Other Governmental Agencies..... | 164,386,216 | 11,695,326 | 176,081,542 | 1,789,658 |
| Other Receivables - Net..... | 36,530,844 | 213,081,161 | 249,612,005 | 56,491,718 |
| Total Accounts and Contracts Receivable - Net..... | 232,675,317 | 196,445,328 | 429,120,645 | 68,214,083 |
| Inventories..... | 11,909,293 | 25,219,715 | 37,129,008 | 7,331,532 |
| Prepaid Expenses..... | 127,636 | 11,453,259 | 11,580,895 | 2,069,584 |
| Total Unrestricted Assets..... | 593,073,188 | 319,474,732 | 912,547,920 | 234,932,886 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents..... | 77,854,847 | 73,634,169 | 151,489,016 | 5,920,370 |
| Investments..... | 14,705,456 | 675,489,475 | 690,194,931 | 183,322,762 |
| Total Restricted Assets..... | 92,560,303 | 749,123,644 | 841,683,947 | 189,243,132 |
| Total Current Assets..... | 685,633,491 | 1,068,598,376 | 1,754,231,867 | 424,176,018 |
| Non-Current Assets: | | | | |
| Restricted Investments..... | - | 159,126,212 | 159,126,212 | - |
| Long-Term Receivable..... | - | 30,820,615 | 30,820,615 | - |
| Loans and Notes Receivable..... | - | - | - | 27,181,711 |
| Net Pension Asset..... | 1,026,201,530 | 255,867,742 | 1,282,069,272 | 22,791,256 |
| Bonds, Notes and POC Issuance Costs..... | 83,307,215 | 79,574,862 | 162,882,077 | 5,380,855 |
| Advance to Component Unit..... | 24,554,826 | - | 24,554,826 | - |
| Deferred Charges..... | - | - | - | 708,149 |
| Capital Assets: | | | | |
| Non-Depreciable..... | 547,385,678 | 494,718,846 | 1,042,104,524 | 32,735,161 |
| Depreciable, Net..... | 962,639,043 | 4,851,292,857 | 5,813,931,900 | 418,549,690 |
| Total Capital Assets, Net..... | 1,510,024,721 | 5,346,011,703 | 6,856,036,424 | 451,284,851 |
| Other Assets..... | 176,478 | 650,000 | 826,478 | 14,171,558 |
| Total Non-Current Assets | 2,644,264,770 | 5,872,051,134 | 8,516,315,904 | 521,518,380 |
| Total Assets | \$ 3,329,898,261 | \$ 6,940,649,510 | \$ 10,270,547,771 | \$ 945,694,398 |

See accompanying notes to basic financial statements.

| | Primary Government | | | |
|--|----------------------------|-----------------------------|------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts and Contracts Payable..... | \$ 185,637,304 | \$ 65,200,898 | \$ 250,838,202 | \$ 30,874,229 |
| Due to Other Governmental Agencies..... | 91,353,160 | 4,606 | 91,357,766 | - |
| Due to Primary Government..... | - | - | - | 3,427,098 |
| Due to Component Units..... | 7,795,059 | 2,137,648 | 9,932,707 | - |
| Deposits and Refunds..... | 38,807,667 | - | 38,807,667 | - |
| Accrued Interest Payable..... | 16,679,967 | 81,050,981 | 97,730,948 | 7,837,785 |
| Advances from Primary Government..... | - | - | - | 1,828,745 |
| Accrued Salaries and Wages..... | 33,532,139 | 4,873,733 | 38,405,872 | 809,433 |
| Deferred Revenue..... | 2,097,484 | 488,298 | 2,585,782 | 1,458,771 |
| Other Current Liabilities..... | 21,126,836 | 11,012,577 | 32,139,413 | 11,231,499 |
| Restricted Liabilities: | | | | |
| Accounts Payable..... | 1,438,805 | 55,808,288 | 57,247,093 | - |
| Accrued Public Liability and Worker's Compensation..... | 54,424,485 | - | 54,424,485 | - |
| Other Liabilities..... | 4,660,771 | 459,722 | 5,120,493 | - |
| Total Restricted Liabilities..... | 60,524,061 | 56,268,010 | 116,792,071 | - |
| Bonds, Notes and Other Debt Payable - Current..... | 232,482,185 | 88,422,808 | 320,904,993 | 75,343,938 |
| Accrued Compensated Absences..... | 8,054,876 | 9,907,767 | 17,962,643 | 143,769 |
| Accrued Public Liability and Workers' Compensation.... | - | 5,381,163 | 5,381,163 | 8,356 |
| Total Current Liabilities..... | 698,090,738 | 324,748,489 | 1,022,839,227 | 132,963,623 |
| Long-Term Liabilities: | | | | |
| Bonds, Notes and Other Debt Payable..... | 1,071,290,165 | 4,628,879,833 | 5,700,169,998 | 542,930,274 |
| Unamortized Premium/(Discount) and Loss (Gain) on Defeasances..... | 34,594,370 | (43,491,105) | (8,896,735) | (1,422,427) |
| Bonds, Notes and Other Debt Payable -Net..... | 1,105,884,535 | 4,585,388,728 | 5,691,273,263 | 541,507,847 |
| Pension Obligation Certificates Payable..... | 1,206,770,168 | 277,714,831 | 1,484,484,999 | - |
| Deferred Amount on Refunding- Pension Obligation Certificates | (24,733,155) | (5,809,994) | (30,543,149) | (513,048) |
| Deferred Swap Termination Fees..... | 38,969,807 | 25,804,050 | 64,773,857 | - |
| Advance Payable to Primary Government..... | - | - | - | 24,554,826 |
| Accrued Compensated Absences..... | 142,395,892 | 28,266,565 | 170,662,457 | 5,359,931 |
| Accrued Public Liability and Workers' Compensation..... | 138,677,322 | 24,714,798 | 163,392,120 | 158,543 |
| Other Long -Term Obligations..... | - | 2,610,365 | 2,610,365 | - |
| Total Long-Term Liabilities..... | 2,607,964,569 | 4,938,689,343 | 7,546,653,912 | 571,068,099 |
| Total Liabilities..... | 3,306,055,307 | 5,263,437,832 | 8,569,493,139 | 704,031,722 |
| NET ASSETS | | | | |
| Invested in Capital Assets, Net of Related Debt..... | 603,086,043 | 914,032,397 | 1,517,118,440 | 256,574,867 |
| Restricted for: | | | | |
| Endowments and Trust (Non-Expendable)..... | 1,291,569 | - | 1,291,569 | 15,995,721 |
| Capital Projects..... | - | - | - | 53,326,802 |
| Debt Service..... | 28,200,886 | 385,379,957 | 413,580,843 | 28,177,335 |
| Unrestricted (Deficit)..... | (608,735,544) | 377,799,324 | (230,936,220) | (112,412,049) |
| Total Net Assets..... | \$ 23,842,954 | \$ 1,677,211,678 | \$ 1,701,054,632 | \$ 241,662,676 |

City of Detroit, Michigan
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues | | |
|--|------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Public Protection..... | \$ 681,052,276 | \$ 51,757,423 | \$ 6,487,445 | \$ - |
| Health..... | 177,363,962 | 14,224,550 | 145,442,124 | - |
| Recreation and Culture..... | 69,192,054 | 27,367,110 | 2,495,533 | - |
| Economic Development..... | 95,641,855 | 13,946,969 | 25,321,866 | 47,511,098 |
| Education..... | 64,670,870 | - | 64,427,129 | - |
| Housing Supply and Conditions..... | 14,737,981 | 1,636,711 | - | - |
| Physical Environment..... | 243,949,975 | 74,915,029 | 29,264 | - |
| Transportation..... | 79,343,398 | 1,355 | - | 26,513,172 |
| Development and Management..... | 240,246,357 | 156,799,556 | 858,427 | 17,782,670 |
| Interest on Long-Term Debt..... | 126,659,186 | - | - | - |
| Total Government Activities | 1,792,857,914 | 340,648,703 | 245,061,788 | 91,806,940 |
| Business-type Activities: | | | | |
| Sewage Disposal..... | 311,303,765 | 354,455,204 | - | - |
| Transportation..... | 190,358,944 | 25,173,805 | 73,801,668 | 9,502,218 |
| Water..... | 282,149,274 | 276,230,766 | - | - |
| Automobile Parking..... | 19,474,446 | 21,125,510 | - | - |
| Airport..... | 3,044,030 | 989,722 | - | - |
| Total Business-type Activities | 806,330,459 | 677,975,007 | 73,801,668 | 9,502,218 |
| Total Primary Government | \$ 2,599,188,373 | \$ 1,018,623,710 | \$ 318,863,456 | \$ 101,309,158 |
| Component Units: | | | | |
| Detroit Brownfield Redevelopment Authority..... | \$ 442,315 | \$ 150,000 | \$ 129,747 | \$ - |
| Detroit Public Library..... | 42,490,135 | 483,519 | 1,668,297 | - |
| Downtown Development Authority..... | 43,000,694 | 19,018,000 | - | - |
| Economic Development Corporation..... | 12,587,840 | 28,617,281 | - | - |
| Local Development Finance Authority..... | 7,590,084 | - | - | - |
| Museum of African American History..... | 10,208,400 | 1,866,749 | 1,444,503 | - |
| Tax Increment Finance Authority..... | 11,301,476 | - | - | - |
| Detroit Transportation Corporation..... | 20,666,354 | 998,621 | 10,225,752 | - |
| Greater Detroit Resource Recovery Authority..... | 113,727,977 | 48,210,148 | 80,090,959 | - |
| Total Component units | \$ 262,015,275 | \$ 99,344,318 | \$ 93,559,258 | \$ - |

General Revenues:

Taxes:

Property taxes, levied for general purposes
Property taxes, levied for debt service
Municipal income tax
Utility Users tax
Wagering tax
Hotel and Liquor tax
Other taxes
Shared taxes
Interest and Penalty on taxes

Investment earnings

Miscellaneous revenue (expense)

Gain(Loss) on disposal of capital assets

Transfers

Total general revenues, and transfers

Change in net assets

Net assets - beginning, as adjusted by restated Component Units (DPS and DHC) - See Note 1

Net assets - ending

See accompanying notes to basic financial statements.

| Net (Expense) Revenue and Changes in Net Assets | | | |
|--|-----------------------------|------------------|--------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| \$ (622,807,408) | \$ - | \$ (622,807,408) | \$ - |
| (17,697,288) | - | (17,697,288) | - |
| (39,329,411) | - | (39,329,411) | - |
| (8,861,922) | - | (8,861,922) | - |
| (243,741) | - | (243,741) | - |
| (13,101,270) | - | (13,101,270) | - |
| (169,005,682) | - | (169,005,682) | - |
| (52,828,871) | - | (52,828,871) | - |
| (64,805,704) | - | (64,805,704) | - |
| (126,659,186) | - | (126,659,186) | - |
| (1,115,340,483) | - | (1,115,340,483) | - |
| - | 43,151,439 | 43,151,439 | - |
| - | (81,881,253) | (81,881,253) | - |
| - | (5,918,508) | (5,918,508) | - |
| - | 1,651,064 | 1,651,064 | - |
| - | (2,054,308) | (2,054,308) | - |
| - | (45,051,566) | (45,051,566) | - |
| (1,115,340,483) | (45,051,566) | (1,160,392,049) | - |
| - | - | - | (162,568) |
| - | - | - | (40,338,319) |
| - | - | - | (23,982,694) |
| - | - | - | 16,029,441 |
| - | - | - | (7,590,084) |
| - | - | - | (6,897,148) |
| - | - | - | (11,301,476) |
| - | - | - | (9,441,981) |
| - | - | - | 14,573,130 |
| - | - | - | (69,111,699) |
| 185,318,391 | - | 185,318,391 | 93,397,030 |
| 58,303,541 | - | 58,303,541 | - |
| 284,111,220 | - | 284,111,220 | - |
| 122,824,621 | - | 122,824,621 | - |
| 156,588,917 | - | 156,588,917 | - |
| 16,287,676 | - | 16,287,676 | - |
| 13,602,597 | - | 13,602,597 | 2,424,459 |
| 280,818,221 | - | 280,818,221 | 2,552,025 |
| 9,181,155 | - | 9,181,155 | 696,002 |
| 18,396,691 | 39,193,811 | 57,590,502 | 5,417,135 |
| 22,780,845 | 2,879,273 | 25,660,118 | 12,706,278 |
| (308,855) | 25,970,429 | 25,661,574 | - |
| (35,227,632) | 35,227,632 | - | - |
| 1,132,677,388 | 103,271,145 | 1,235,948,533 | 117,192,929 |
| 17,336,905 | 58,219,579 | 75,556,484 | 48,081,230 |
| 6,506,049 | 1,618,992,099 | 1,625,498,148 | 193,581,446 |
| \$ 23,842,954 | \$ 1,677,211,678 | \$ 1,701,054,632 | \$ 241,662,676 |

City of Detroit, Michigan
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

| | Primary Government | | | | Total |
|--|-----------------------|---|---|--------------------------|-----------------------|
| | General Fund | General Retirement System Service Corporation | Police and Fire Retirement System Service Corporation | Other Governmental Funds | |
| ASSETS | | | | | |
| Cash and Cash Equivalents..... | \$ 49,818,071 | \$ - | \$ - | \$ 25,133,591 | \$ 74,951,662 |
| Investments..... | 63,606,331 | - | - | 209,802,949 | 273,409,280 |
| Accounts and Contracts Receivable: | | | | | |
| Due from Other Funds..... | 40,404,689 | - | - | 10,220,318 | 50,625,007 |
| Due from Fiduciary Funds..... | 3,807,548 | - | - | - | 3,807,548 |
| Due from Component Units..... | 3,427,098 | - | - | - | 3,427,098 |
| Due from Other Governmental Agencies..... | 133,269,916 | - | - | 31,116,300 | 164,386,216 |
| Estimated Withheld Income Taxes Receivable..... | 25,736,476 | - | - | - | 25,736,476 |
| Utility Users' Taxes Receivable..... | 3,950,640 | - | - | - | 3,950,640 |
| Property Tax Receivable..... | 66,956,457 | - | - | 23,257,015 | 90,213,472 |
| Land Contracts Receivable..... | 2,238,916 | - | - | - | 2,238,916 |
| Income Tax Assessments..... | 37,573,961 | - | - | - | 37,573,961 |
| Special Assessments..... | 41,475,862 | - | - | 342,173 | 41,818,035 |
| Interest and Penalties..... | 6,555,000 | - | - | 2,275,000 | 8,830,000 |
| Trade Receivables..... | 161,233,589 | - | - | 1,823,030 | 163,056,619 |
| Total Accounts and Contracts Receivable..... | 526,630,152 | - | - | 69,033,836 | 595,663,988 |
| Allowance for Uncollectible Accounts..... | (313,956,262) | - | - | (26,738,561) | (340,694,823) |
| Total Accounts and Contracts Receivable - Net..... | 212,673,890 | - | - | 42,295,275 | 254,969,165 |
| Inventory-Forfeited Property..... | - | - | - | 290,198 | 290,198 |
| Inventories..... | 11,079,339 | - | - | 539,756 | 11,619,095 |
| Prepaid Expenditures..... | - | - | - | 127,636 | 127,636 |
| Working Capital Advances to Other Funds..... | 11,820,680 | - | - | - | 11,820,680 |
| Restricted Assets: | | | | | |
| Cash and Cash Equivalents..... | 29,205,154 | 62,500 | 62,500 | 48,524,693 | 77,854,847 |
| Investments..... | 13,000,000 | 920,520 | 784,936 | - | 14,705,456 |
| Total Restricted Assets..... | 42,205,154 | 983,020 | 847,436 | 48,524,693 | 92,560,303 |
| Advances to Component Units..... | - | 24,554,826 | - | - | 24,554,826 |
| Other Advances..... | 5,000 | - | - | - | 5,000 |
| Other Assets..... | 9,014 | 87,690 | 74,774 | - | 171,478 |
| Total Assets | \$ 391,217,479 | \$ 25,625,536 | \$ 922,210 | \$ 326,714,098 | \$ 744,479,323 |

See accompanying notes to basic financial statements.

City of Detroit, Michigan
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

| | Primary Government | | | | |
|---|--------------------|---------------------------------------|---------------------------------------|--------------------------|----------------|
| | General | | Police and Fire | | Total |
| | General Fund | Retirement System Service Corporation | Retirement System Service Corporation | Other Governmental Funds | |
| LIABILITIES | | | | | |
| Accounts and Contracts Payable..... | \$ 18,706,582 | \$ 62,500 | \$ 62,500 | \$ 27,017,973 | \$ 45,849,555 |
| Due to Other Funds..... | 8,530,598 | - | - | 24,588,256 | 33,118,854 |
| Due to Fiduciary Funds..... | 97,829,853 | - | - | - | 97,829,853 |
| Loans and Other Advances from Other Funds..... | - | - | - | 995,674 | 995,674 |
| Due to Other Governmental Agencies..... | 88,693,414 | - | - | 2,659,746 | 91,353,160 |
| Due to Component Units..... | 7,795,059 | - | - | - | 7,795,059 |
| Accrued Salaries and Wages..... | 16,138,738 | - | - | 771,434 | 16,910,172 |
| Fringes Benefits Payable..... | 11,693,796 | - | - | - | 11,693,796 |
| Payroll Deductions Payable..... | 4,928,171 | - | - | - | 4,928,171 |
| Accrued Compensated Absences..... | 2,044,120 | - | - | - | 2,044,120 |
| Income Tax Refunds Payable..... | 20,067,652 | - | - | - | 20,067,652 |
| Deposits from Vendors and Customers..... | 15,892,376 | - | - | 2,847,639 | 18,740,015 |
| Accrued Liabilities..... | 34,332,684 | - | - | 7,625,213 | 41,957,897 |
| Revenue and Tax Anticipation Notes Payable | 125,235,000 | - | - | - | 125,235,000 |
| Other Liabilities..... | 18,750,649 | - | - | 2,376,187 | 21,126,836 |
| Liabilities Payable from Restricted Assets: | | | | | |
| Accounts and Contracts Payable..... | 1,438,805 | - | - | - | 1,438,805 |
| Accrued Public Liability..... | 5,650,269 | - | - | - | 5,650,269 |
| Accrued Workers' Compensation Payable..... | 1,502,495 | - | - | - | 1,502,495 |
| Other Liabilities..... | 3,193,806 | 934,784 | 532,181 | - | 4,660,771 |
| Total Liabilities Payable from Restricted Assets..... | 11,785,375 | 934,784 | 532,181 | - | 13,252,340 |
| Deferred Revenue..... | 15,969,500 | - | - | 2,407,864 | 18,377,364 |
| Total Liabilities..... | 498,393,567 | 997,284 | 594,681 | 71,289,986 | 571,275,518 |
| FUND BALANCES | | | | | |
| Reserved Fund Balance: | | | | | |
| Reserved for Advances to Component Units..... | - | 24,554,826 | - | - | 24,554,826 |
| Reserved for Inventory..... | 11,079,339 | - | - | 829,954 | 11,909,293 |
| Reserved for Encumbrances..... | 40,748,381 | - | - | 13,827,711 | 54,576,092 |
| Reserved for Advances to Other Funds..... | 11,825,680 | - | - | - | 11,825,680 |
| Reserved for Risk Management Operations..... | 889,877 | - | - | - | 889,877 |
| Reserved for Motor Vehicle Operations..... | 1,959,342 | - | - | - | 1,959,342 |
| Reserved for Endowments and Trusts..... | - | - | - | 1,291,569 | 1,291,569 |
| Reserved for Debt Service..... | - | 73,426 | 327,529 | 27,799,931 | 28,200,886 |
| Reserved for Capital Projects..... | - | - | - | 134,433,861 | 134,433,861 |
| Total Reserved Fund Balance..... | 66,502,619 | 24,628,252 | 327,529 | 178,183,026 | 269,641,426 |
| General Fund Operations (Deficit)..... | (173,678,707) | - | - | - | (173,678,707) |
| Special Revenue Funds..... | - | - | - | 77,241,086 | 77,241,086 |
| Total Unreserved Fund Balance (Deficit)..... | (173,678,707) | - | - | 77,241,086 | (96,437,621) |
| Total Fund Balances (Deficit)..... | (107,176,088) | 24,628,252 | 327,529 | 255,424,112 | 173,203,805 |
| Total Liabilities, and Fund Balances..... | \$ 391,217,479 | \$ 25,625,536 | \$ 922,210 | \$ 326,714,098 | \$ 744,479,323 |

City of Detroit, Michigan
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Fund balances - total governmental funds \$ 173,203,805

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the governmental fund

| | | |
|-------------------------------|------------------------|---------------|
| Governmental capital asset | \$ 2,823,742,334 | |
| Less accumulated depreciation | <u>(1,313,717,613)</u> | 1,510,024,721 |

Other assets used in governmental activities are not financial resources
and therefore are not reported in the governmental fund

| | | |
|--|---------------------|------------|
| Bond and Pension Obligation Certificate issuance costs | 103,566,147 | |
| Less accumulated amortization | <u>(20,258,932)</u> | 83,307,215 |

| | | |
|--|--|------------|
| Receivables applicable to governmental activities are not due and collectible in the current period and therefore are deferred in governmental funds | | 16,279,880 |
|--|--|------------|

| | | |
|--|--|---------------|
| Issuance of Pension Obligation Certificates created a Net Pension Asset: | | 1,026,201,530 |
|--|--|---------------|

Long term liabilities, including bonds payable are not due and payable
in the current period and therefore are not reported in the governmental fund

| | | |
|---|----------------------|------------------------|
| Governmental long term debt payable | (1,178,537,350) | |
| Pension Obligation Certificates Payable | (1,182,037,012) | |
| Bond Premium | (34,594,370) | |
| Swap Termination Fees | (38,969,807) | |
| Accrued interest payable | (16,679,967) | |
| Compensated absences | (148,406,648) | |
| Public Liability and Workers Compensation | <u>(185,949,043)</u> | <u>(2,785,174,197)</u> |

| | | |
|---------------------------------------|--|----------------------|
| Net assets of governmental activities | | <u>\$ 23,842,954</u> |
|---------------------------------------|--|----------------------|

See accompanying notes to basic financial statements.

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

| | Primary Government | | | | Total |
|---|-------------------------|---|---|--------------------------|-----------------------|
| | General Fund | General Retirement System Service Corporation | Police and Fire Retirement System Service Corporation | Other Governmental Funds | |
| REVENUES: | | | | | |
| Taxes: | | | | | |
| Property Taxes..... | \$ 185,318,391 | \$ - | \$ - | \$ 58,303,541 | \$ 243,621,932 |
| Municipal Income Tax..... | 284,111,220 | - | - | - | 284,111,220 |
| Utility Users' tax..... | 60,019,626 | - | - | - | 60,019,626 |
| Wagering Taxes..... | 156,588,917 | - | - | - | 156,588,917 |
| Gas and Weight Tax..... | - | - | - | 62,804,995 | 62,804,995 |
| Other Taxes and Assessments..... | 11,312,655 | - | - | 2,270,766 | 13,583,421 |
| State Hotel and Liquor Tax..... | - | - | - | 16,287,676 | 16,287,676 |
| State Shared Taxes..... | 279,467,063 | - | - | - | 279,467,063 |
| Shared Taxes-Liquor and Beer Licenses..... | 1,351,158 | - | - | - | 1,351,158 |
| Interest and Penalties on Taxes..... | 9,181,155 | - | - | - | 9,181,155 |
| Licenses, Permits and Inspection Charges..... | 7,141,326 | - | - | 27,092,666 | 34,233,992 |
| Intergovernmental: | | | | | |
| Federal..... | 9,399,170 | - | - | 208,719,975 | 218,119,145 |
| State..... | 61,168,848 | - | - | 14,605,682 | 75,774,530 |
| Other..... | 7,072,108 | - | - | 18,120,276 | 25,192,384 |
| Sales and Charges for Services..... | 184,409,155 | - | - | 4,844,273 | 189,253,428 |
| Ordinance Fines..... | 19,098,767 | - | - | 2,426,490 | 21,525,257 |
| Revenue from Use of Assets..... | 20,608,855 | - | - | 2,171,990 | 22,780,845 |
| Earnings on Investments..... | 6,049,157 | 101,872 | 86,867 | 12,158,795 | 18,396,691 |
| Other Revenue..... | 98,574,416 | 385,154 | - | 7,562,313 | 106,521,883 |
| Total Revenues..... | 1,400,871,987 | 487,026 | 86,867 | 437,369,438 | 1,838,815,318 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Public Protection..... | 658,835,192 | - | - | 28,416,222 | 687,251,414 |
| Health..... | 96,237,548 | - | - | 81,485,673 | 177,723,221 |
| Recreation and Culture..... | 55,390,716 | - | - | - | 55,390,716 |
| Economic Development..... | 25,195,279 | - | - | 63,228,993 | 88,424,272 |
| Educational Development..... | - | - | - | 64,427,129 | 64,427,129 |
| Housing Supply and Conditions..... | 11,935,708 | - | - | 2,850,753 | 14,786,461 |
| Physical Environment..... | 220,208,683 | - | - | - | 220,208,683 |
| Transportation Facilitation..... | - | - | - | 79,343,398 | 79,343,398 |
| Development and Management..... | 233,172,837 | 62,500 | 62,500 | - | 233,297,837 |
| Debt Service: | | | | | |
| Principal..... | 16,645,788 | - | - | 71,504,576 | 88,150,364 |
| Interest..... | 5,611,618 | 36,078,667 | 31,126,357 | 48,140,062 | 120,956,704 |
| Bond Issuance Costs..... | - | - | - | 2,200,024 | 2,200,024 |
| Costs of Issuance of POC's..... | - | 29,117,886 | 24,829,099 | - | 53,946,985 |
| Capital Outlay..... | 86,847,848 | - | - | 88,321,818 | 175,169,666 |
| Total Expenditures..... | 1,410,081,217 | 65,259,053 | 56,017,956 | 529,918,648 | 2,061,276,874 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures..... | (9,209,230) | (64,772,027) | (55,931,089) | (92,549,210) | (222,461,556) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Sources: | | | | | |
| Transfers In..... | 50,245,611 | 12,578,651 | 11,063,568 | 55,911,650 | 129,799,480 |
| Pension Obligation Certificates Issued..... | - | 416,194,282 | 354,892,855 | - | 771,087,137 |
| Swap Termination Fees..... | - | 21,033,953 | 17,935,854 | - | 38,969,807 |
| Proceeds of Section 108 Federal Note..... | - | - | - | 1,800,000 | 1,800,000 |
| Proceeds of Capital Leases..... | 34,892,659 | - | - | - | 34,892,659 |
| Proceeds from Debt Issuance..... | - | - | - | 81,903,071 | 81,903,071 |
| Premium from Debt Issuance..... | - | - | - | 3,778,114 | 3,778,114 |
| Uses: | | | | | |
| Transfers Out..... | 139,415,704 | - | - | 25,611,408 | 165,027,112 |
| Principal Paid to Bond Agent for Refunded Bonds..... | - | - | - | 29,940,000 | 29,940,000 |
| Principal Paid to Trustee for POC's..... | - | 396,675,440 | 338,248,951 | - | 734,924,391 |
| Interest Paid to Bond Agent for Refunded Bonds..... | - | - | - | 1,741,161 | 1,741,161 |
| Total Other Financing Sources (Uses)..... | (54,277,434) | 53,131,446 | 45,643,326 | 86,100,266 | 130,597,604 |
| Net Change in Fund Balances..... | (63,486,664) | (11,640,581) | (10,287,763) | (6,448,944) | (91,863,952) |
| Fund Balance at Beginning of Year..... | (33,594,434) | 36,268,833 | 10,615,292 | 261,971,186 | 275,260,877 |
| Decrease in Inventories..... | (10,094,990) | - | - | (98,130) | (10,193,120) |
| Fund Balance (Deficit) at End of Year..... | \$ (107,176,088) | \$ 24,628,252 | \$ 327,529 | \$ 255,424,112 | \$ 173,203,805 |

See accompanying notes to basic financial statements.

City of Detroit, Michigan
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Change in fund balances - total governmental funds \$ (91,863,952)

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets

is depreciated over their estimated useful lives

Less current year depreciation

| | |
|---------------------|-------------|
| \$ 175,169,666 | |
| <u>(67,878,925)</u> | 107,290,741 |

The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to decrease net assets.

(308,855)

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds

502,464

Inventory and Advances to Other Funds

(10,193,120)

Repayment of bond principal and other debt is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets:

850,977,825

Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The amount represents the proceeds received net of bond issuance cost and premiums that must be amortized over the life of the bond

(122,373,844)

Pension Obligation Certificates provides current financial resources to governmental funds, but issuing POC's increases long-term liabilities in the statement of net assets. The amount represents the proceeds received net of certificate issuance cost and premiums that must be amortized over the life of the certificates

(771,087,137)

Swap Termination Fees provides current financial resources to governmental funds but swap termination proceeds increase long-term liabilities in the statement of net assets.

(38,969,807)

Payments to The Pension Systems increased the Net Pension Asset:

14,478,714

Some expenses recorded in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Bond Issuance Costs

2,200,024

POC Issuance Costs

53,946,985

Increase in accrued interest expense on governmental debt

(453,908)

Decrease in grant audit amount due to other governments

14,236,946

Decrease in accrued compensated absences

7,305,529

Decrease in accrued public liability and workers compensation

4,643,772

Amortization of current year bond premium and defeasances

784,036

POC Amortization Costs

(1,838,499)

Amortization of current year bond cost

| | |
|-------------|-------------------|
| (1,941,009) | <u>78,883,876</u> |
|-------------|-------------------|

Change in net assets of governmental activities

\$ 17,336,905

See accompanying notes to basic financial statements.

City of Detroit, Michigan
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

| | Sewage Disposal Fund | Transportation Fund |
|---|----------------------------|------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents..... | \$ 5,418,283 | \$ 864,607 |
| Investments..... | 47,205,044 | 5,512,300 |
| Accounts and Contracts Receivable: | | |
| Due from Other Funds..... | 52,798,669 | 1,228,080 |
| Due from Other Governmental Agencies..... | - | 11,695,326 |
| Other Receivables- Trade..... | 232,523,802 | 1,072,982 |
| Total Accounts and Contracts Receivable..... | 285,322,471 | 13,996,388 |
| Allowance for Uncollectible Accounts..... | (85,033,589) | (383,531) |
| Total Accounts and Contracts Receivable - Net..... | 200,288,882 | 13,612,857 |
| Inventories..... | 10,456,963 | 5,555,837 |
| Prepaid Expenses..... | 5,423,804 | - |
| Restricted Cash and Cash Equivalents..... | 39,168,566 | - |
| Restricted Investments..... | 312,884,409 | - |
| Restricted Due from Other Funds..... | 5,541,786 | - |
| Total Current Assets..... | 626,387,737 | 25,545,601 |
| Noncurrent Assets: | | |
| Restricted: | | |
| Investments..... | 111,020,313 | - |
| Capital Assets: | | |
| Land..... | 13,834,957 | 7,578,462 |
| Land Improvements..... | - | - |
| Buildings and Structures..... | 1,703,001,142 | 66,645,050 |
| Water and Sewer Lines..... | 474,689,271 | - |
| Machinery, Equipment, and Fixtures..... | 1,385,071,312 | 46,030,293 |
| Vehicles and Buses..... | - | 165,145,617 |
| Construction in Progress..... | 310,502,398 | 5,292,244 |
| Total Capital Assets..... | 3,887,099,080 | 290,691,666 |
| Less: Accumulated Depreciation..... | (750,972,844) | (147,745,287) |
| Net Capital Assets..... | 3,136,126,236 | 142,946,379 |
| Total Restricted Noncurrent Assets..... | 3,247,146,549 | 142,946,379 |
| Other Long-Term Assets: | | |
| Long-Term Receivable..... | 30,820,615 | - |
| Bond and Pension Obligation Certificate Issuance Costs..... | 34,230,456 | 5,830,251 |
| Net Pension Asset..... | 8,371,380 | 98,906,088 |
| Other Assets..... | - | 650,000 |
| Total Noncurrent Assets..... | 3,320,569,000 | 248,332,718 |
| Total Assets..... | \$ 3,946,956,737 | \$ 273,878,319 |

See accompanying notes to basic financial statements.

Business-Type Activities

| Water Fund | Automobile Parking Fund | Non-Major Fund | Total |
|-----------------------|--|---------------------------|------------------|
| \$ 3,997,111 | \$ 106,814 | \$ 757,944 | \$ 11,144,759 |
| 22,345,923 | 148,404 | - | 75,211,671 |
| 56,884,330 | 1,496,082 | 618,673 | 113,025,834 |
| - | - | - | 11,695,326 |
| 102,909,439 | 928,095 | 569,125 | 338,003,443 |
| 159,793,769 | 2,424,177 | 1,187,798 | 462,724,603 |
| (39,119,680) | - | (385,482) | (124,922,282) |
| 120,674,089 | 2,424,177 | 802,316 | 337,802,321 |
| 8,967,419 | - | 239,496 | 25,219,715 |
| 5,930,718 | 62,813 | 35,924 | 11,453,259 |
| 34,465,603 | - | - | 73,634,169 |
| 362,605,066 | - | - | 675,489,475 |
| 6,021,460 | - | - | 11,563,246 |
| 565,007,389 | 2,742,208 | 1,835,680 | 1,221,518,615 |
| 10,717,537 | 37,388,362 | - | 159,126,212 |
| 6,529,308 | 4,967,313 | 5,169,374 | 38,079,414 |
| 106,085,312 | 214,908 | 8,020,718 | 114,320,938 |
| 825,649,528 | 192,161,203 | 5,853,773 | 2,793,310,696 |
| 763,588,390 | - | - | 1,238,277,661 |
| 864,457,966 | 2,667,605 | 1,770,770 | 2,299,997,946 |
| - | - | 1,576,778 | 166,722,395 |
| 140,815,156 | 29,634 | - | 456,639,432 |
| 2,707,125,660 | 200,040,663 | 22,391,413 | 7,107,348,482 |
| (743,068,280) | (106,421,498) | (13,128,870) | (1,761,336,779) |
| 1,964,057,380 | 93,619,165 | 9,262,543 | 5,346,011,703 |
| 1,974,774,917 | 131,007,527 | 9,262,543 | 5,505,137,915 |
| - | - | - | 30,820,615 |
| 39,514,155 | - | - | 79,574,862 |
| 148,590,274 | - | - | 255,867,742 |
| - | - | - | 650,000 |
| 2,162,879,346 | 131,007,527 | 9,262,543 | 5,872,051,134 |
| \$ 2,727,886,735 | \$ 133,749,735 | \$ 11,098,223 | \$ 7,093,569,749 |

City of Detroit, Michigan
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006 (Continued)

| | <u>Sewage Disposal Fund</u> | <u>Transportation Fund</u> |
|--|-------------------------------------|--------------------------------|
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Current Liabilities: | | |
| Accounts and Contracts Payable..... | 20,358,379 | 11,627,270 |
| Due to Other Funds..... | 57,335,966 | 9,104,125 |
| Due to Fiduciary Funds..... | 411,500 | 8,317,405 |
| Due to Component Units..... | - | 2,137,648 |
| Due to Other Governmental Agencies..... | - | - |
| Accrued Salaries and Wages..... | 1,246,496 | 1,844,678 |
| Accrued Compensated Absences..... | 2,281,068 | 3,727,325 |
| Accrued Public Liability and Worker's Compensation..... | 811,538 | 1,166,275 |
| Other Liabilities..... | 958,353 | - |
| Bonds and Notes Payable..... | 53,205,000 | 2,577,808 |
| Accrued Interest on Bonds and Notes Payable..... | 41,115,497 | 597,985 |
| Restricted Accounts and Contracts Payable..... | 35,307,217 | - |
| Restricted Due to Other Funds..... | 10,262,102 | - |
| Restricted Other Liabilities..... | - | - |
| Deferred Revenue..... | - | 248,802 |
| Total Current Liabilities..... | 223,293,116 | 41,349,321 |
| Noncurrent Liabilities: | | |
| Bonds and Notes Payable..... | 2,604,241,122 | 31,304,757 |
| Unamortized Discount and Gain on Defeasances..... | 7,271,333 | - |
| Bonds and Notes Payable - Net..... | 2,611,512,455 | 31,304,757 |
| Deferred Swap Termination Fees..... | 2,504,243 | 3,498,111 |
| Accrued Compensated Absences..... | 11,618,703 | 931,831 |
| Accrued Public Liability and Worker's Compensation..... | 4,321,980 | 4,665,102 |
| Advance From Other Funds..... | - | - |
| Pension Obligation Certificates Payable..... | 9,031,280 | 106,268,234 |
| Deferred Amount on Refunding - Pension Obligation Certificates | (188,822) | (2,223,313) |
| Other Long Term Liabilities..... | 2,610,365 | - |
| Total Noncurrent Liabilities..... | 2,641,410,204 | 144,444,722 |
| Total Liabilities | 2,864,703,320 | 185,794,043 |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt..... | 532,734,469 | 109,063,813 |
| Restricted for Debt Service..... | 303,465,827 | - |
| Unrestricted (Deficit)..... | 246,053,121 | (20,979,537) |
| Total Net Assets..... | \$ 1,082,253,417 | \$ 88,084,276 |

See accompanying notes to basic financial statements.

Business-Type Activities

| Water Fund | Automobile Parking Fund | Non-Major Fund | Total |
|-----------------------|--|---------------------------|-------------------------|
| 22,718,139 | 1,106,274 | 155,750 | 55,965,812 |
| 53,366,830 | 935,853 | 107,767 | 120,850,541 |
| 506,181 | - | - | 9,235,086 |
| - | - | - | 2,137,648 |
| - | - | 4,606 | 4,606 |
| 1,706,286 | 41,478 | 34,795 | 4,873,733 |
| 3,715,980 | 157,604 | 25,790 | 9,907,767 |
| 2,913,177 | 292,225 | 197,948 | 5,381,163 |
| 8,142,609 | 1,587,039 | 324,576 | 11,012,577 |
| 25,535,000 | 7,105,000 | - | 88,422,808 |
| 38,626,382 | 711,117 | - | 81,050,981 |
| 20,501,071 | - | - | 55,808,288 |
| 10,982,590 | - | - | 21,244,692 |
| 459,722 | - | - | 459,722 |
| - | - | 239,496 | 488,298 |
| <u>189,173,967</u> | <u>11,936,590</u> | <u>1,090,728</u> | <u>466,843,722</u> |
| 1,946,208,954 | 47,125,000 | - | 4,628,879,833 |
| (45,806,262) | (4,956,176) | - | (43,491,105) |
| <u>1,900,402,692</u> | <u>42,168,824</u> | <u>-</u> | <u>4,585,388,728</u> |
| 16,213,524 | 3,588,172 | - | 25,804,050 |
| 14,912,321 | 600,376 | 203,334 | 28,266,565 |
| 15,198,239 | 529,477 | - | 24,714,798 |
| - | 10,825,006 | - | 10,825,006 |
| 162,415,317 | - | - | 277,714,831 |
| (3,397,859) | - | - | (5,809,994) |
| - | - | - | 2,610,365 |
| <u>2,105,744,234</u> | <u>57,711,855</u> | <u>203,334</u> | <u>4,949,514,349</u> |
| <u>2,294,918,201</u> | <u>69,648,445</u> | <u>1,294,062</u> | <u>5,416,358,071</u> |
| 217,225,377 | 45,746,195 | 9,262,543 | 914,032,397 |
| 81,914,130 | - | - | 385,379,957 |
| 133,829,027 | 18,355,095 | 541,618 | 377,799,324 |
| <u>\$ 432,968,534</u> | <u>\$ 64,101,290</u> | <u>\$ 9,804,161</u> | <u>\$ 1,677,211,678</u> |

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

| | Sewage Disposal Fund | Transportation Fund |
|--|-------------------------------------|--------------------------------|
| Operating Revenues: | | |
| Sales and Charges for Services..... | \$ 350,579,190 | \$ 25,173,805 |
| Rentals, Fees and Surcharges..... | - | - |
| Miscellaneous..... | 3,876,014 | - |
| Total Operating Revenues..... | 354,455,204 | 25,173,805 |
| Operating Expenses: | | |
| Salaries, Wages and Benefits..... | 57,204,522 | 104,326,227 |
| Contractual Services..... | - | 14,687,146 |
| Operating | 114,551,986 | 23,699,780 |
| Repairs and Maintenance..... | 15,775,123 | - |
| Materials, Supplies and Other Expenses..... | 10,072,366 | 22,878,299 |
| Depreciation and Amortization..... | 69,951,016 | 21,250,058 |
| Total Operating Expenses..... | 267,555,013 | 186,841,510 |
| Total Operating Income (Loss)..... | 86,900,191 | (161,667,705) |
| Non-Operating Revenues (Expenses): | | |
| Earnings on Investments..... | 18,920,649 | 100,976 |
| Grants-Federal..... | - | 2,638,120 |
| Contributions..... | - | 71,163,548 |
| Amortization of Bond/POC Issuance Costs & Premium(Discount)..... | - | (168,640) |
| Interest on Bonds and Notes Payable..... | (43,748,752) | (3,348,794) |
| Gain on Disposal of Assets..... | - | - |
| Other Revenue..... | 655,601 | - |
| Other Expenses..... | - | (223,999) |
| Total Non-Operating Revenues (Expenses)..... | (24,172,502) | 70,161,211 |
| Net Income (Loss) Before Contributions and Transfers..... | 62,727,689 | (91,506,494) |
| Capital Contributions..... | - | 9,502,218 |
| Transfers In (Out)..... | (163,835) | 75,513,754 |
| Increase (Decrease) in Net Assets..... | 62,563,854 | (6,490,522) |
| Net Assets - Beginning of Year..... | 1,019,689,563 | 94,574,798 |
| Net Assets - End of Year..... | \$ 1,082,253,417 | \$ 88,084,276 |

See accompanying notes to basic financial statements.

Business-Type Activities

| Water Fund | Automobile Parking Fund | Non-Major Fund | Total |
|-----------------------|--|---------------------------|-------------------------|
| \$ 274,317,916 | \$ - | \$ 87,716 | \$ 650,158,627 |
| - | 21,125,510 | 900,495 | 22,026,005 |
| 1,912,850 | - | 1,511 | 5,790,375 |
| <u>276,230,766</u> | <u>21,125,510</u> | <u>989,722</u> | <u>677,975,007</u> |
| 52,320,068 | 6,912,204 | 928,985 | 221,692,006 |
| - | 2,797,375 | - | 17,484,521 |
| 91,038,495 | - | 769,509 | 230,059,770 |
| - | 534,107 | 327,249 | 16,636,479 |
| 2,856,385 | 71,785 | 379,767 | 36,258,602 |
| 54,628,100 | 5,272,768 | 638,520 | 151,740,462 |
| <u>200,843,048</u> | <u>15,588,239</u> | <u>3,044,030</u> | <u>673,871,840</u> |
| <u>75,387,718</u> | <u>5,537,271</u> | <u>(2,054,308)</u> | <u>4,103,167</u> |
| 18,843,877 | 1,328,309 | - | 39,193,811 |
| - | - | - | 2,638,120 |
| - | - | - | 71,163,548 |
| - | (354,592) | - | (523,232) |
| (81,306,226) | (3,531,615) | - | (131,935,387) |
| - | 25,970,429 | - | 25,970,429 |
| 2,278,249 | 169,422 | - | 3,103,272 |
| - | - | - | (223,999) |
| <u>(60,184,100)</u> | <u>23,581,953</u> | <u>-</u> | <u>9,386,562</u> |
| 15,203,618 | 29,119,224 | (2,054,308) | 13,489,729 |
| - | - | - | 9,502,218 |
| <u>(2,657,585)</u> | <u>(37,464,702)</u> | <u>-</u> | <u>35,227,632</u> |
| 12,546,033 | (8,345,478) | (2,054,308) | 58,219,579 |
| 420,422,501 | 72,446,768 | 11,858,469 | 1,618,992,099 |
| <u>\$ 432,968,534</u> | <u>\$ 64,101,290</u> | <u>\$ 9,804,161</u> | <u>\$ 1,677,211,678</u> |

City of Detroit, Michigan
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

| | Sewage Disposal Fund | Transportation Fund |
|--|-------------------------------------|--------------------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from Customers..... | \$ 320,864,453 | \$ 25,332,285 |
| Advances from Other Funds..... | - | - |
| Repayments from Other Funds..... | - | - |
| Loans to Other Funds..... | 49,488,016 | - |
| Payments to Suppliers..... | (156,302,328) | (70,109,244) |
| Payments to Employees..... | (69,072,910) | (110,379,602) |
| Net Cash Provided by (Used in) Operating Activities..... | <u>144,977,231</u> | <u>(155,156,561)</u> |
| Cash Flows from Non-Capital Financing Activities: | | |
| Proceeds from Pension Obligation Certificates..... | - | 961,368 |
| Issuance Costs - Pension Obligation Certificates..... | 170,460 | (2,457,451) |
| Grants and Contributions from Other Governments..... | - | 73,801,668 |
| Transfer to General Fund..... | - | - |
| Transfers from Other Funds..... | - | 76,758,947 |
| Net Cash Provided by (Used in) Non-Capital Financing Activities..... | <u>170,460</u> | <u>149,064,532</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Capital Contributions..... | 655,600 | 4,880,743 |
| Acquisition and Construction of Capital Assets..... | (204,612,868) | (8,629,475) |
| Proceeds from Bond and Note Issuances..... | 31,459,549 | - |
| Unamortized Discount and Bond Issuance Cost..... | 3,756,736 | - |
| Principal Paid on Bonds and Notes..... | (27,840,000) | - |
| Interest Paid on Bonds - Net..... | (95,464,337) | - |
| Sale of Capital Assets..... | - | - |
| Swap Termination Fees..... | - | - |
| Net Cash Provided by (Used in) Capital Financing Activities..... | <u>(292,045,320)</u> | <u>(3,748,732)</u> |
| Cash Flows from Investing Activities: | | |
| Proceeds from Sales and Maturities of Investments..... | 622,765,697 | 18,330,000 |
| Purchase of Investments..... | (471,109,766) | (19,100,185) |
| Interest on Investment Securities..... | 18,920,649 | 100,976 |
| Net Cash Provided by (Used in) Investing Activities..... | <u>170,576,580</u> | <u>(669,209)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents..... | 23,678,951 | (10,509,970) |
| Cash and Cash Equivalents at Beginning of Year (Net of Overdraft)..... | 20,907,898 | 11,374,577 |
| Cash and Cash Equivalents at End of Year..... | <u>\$ 44,586,849</u> | <u>\$ 864,607</u> |

See accompanying notes to basic financial statements.

Business-Type Activities

| Water Fund | Automobile Parking Fund | Non-Major Fund | Total |
|-----------------------|--|---------------------------|----------------|
| \$ 283,573,844 | \$ 20,534,141 | \$ 1,337,506 | \$ 651,642,229 |
| - | (222,964) | - | (222,964) |
| - | - | 708,833 | 708,833 |
| 23,176,195 | - | - | 72,664,211 |
| (86,907,411) | (8,583,968) | (1,218,599) | (323,121,550) |
| (57,564,022) | (988,249) | (959,231) | (238,964,014) |
| 162,278,606 | 10,738,960 | (131,491) | 162,706,745 |
| - | - | - | 961,368 |
| (2,286,429) | - | - | (4,573,420) |
| - | - | 4,606 | 73,806,274 |
| - | (27,889,696) | - | (27,889,696) |
| - | - | - | 76,758,947 |
| (2,286,429) | (27,889,696) | 4,606 | 119,063,473 |
| 2,278,249 | - | - | 7,814,592 |
| (107,519,457) | (2,485,402) | (7,629) | (323,254,831) |
| 4,723,954 | - | - | 36,183,503 |
| 7,404,533 | - | - | 11,161,269 |
| (24,595,000) | (10,150,000) | - | (62,585,000) |
| (102,671,509) | (3,610,225) | - | (201,746,071) |
| - | 33,500,000 | - | 33,500,000 |
| - | - | - | - |
| (220,379,230) | 17,254,373 | (7,629) | (498,926,538) |
| 449,752,017 | 37,208,168 | - | 1,128,055,882 |
| (395,668,526) | (38,865,075) | - | (924,743,552) |
| 18,843,877 | 1,328,309 | - | 39,193,811 |
| 72,927,368 | (328,598) | - | 242,506,141 |
| 12,540,315 | (224,961) | (134,514) | 25,349,821 |
| 25,922,399 | 331,775 | 892,458 | 59,429,107 |
| \$ 38,462,714 | \$ 106,814 | \$ 757,944 | \$ 84,778,928 |

City of Detroit, Michigan
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Continued)
For the Year Ended June 30, 2005

| | Sewage Disposal Fund | Transportation Fund |
|--|----------------------------|-------------------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) | | |
| Operating Activities: | | |
| Operating Income (Loss)..... | \$ 86,900,191 | \$ (161,667,705) |
| Adjustments to Operating Income (Loss): | | |
| Depreciation and Amortization | 69,951,016 | 18,481,332 |
| Amortization of Bond and POC Discount and Issuance..... | - | (168,640) |
| Allowance for Uncollectible Accounts..... | 20,551,250 | (229,832) |
| Interest Expense..... | - | (3,348,794) |
| Changes in Assets and Liabilities: | | |
| Other Receivables - Trade..... | (33,478,223) | 158,480 |
| Inventories..... | 716,417 | 1,364,564 |
| Decrease in Net Pension Asset..... | (521,099) | (900,582) |
| Prepaid Expenses..... | (5,041,957) | - |
| Prepaid Bond Interest..... | - | (145,166) |
| Accounts Receivable..... | (19,761,457) | - |
| Due from Other Funds..... | - | - |
| Prior Period Adjustment..... | - | - |
| Accounts and Contracts Payable..... | (21,538,613) | 3,075,225 |
| Escrow Payable..... | - | (11,037,009) |
| Due to Other Funds..... | 49,488,016 | (5,714,113) |
| Due to Component Units..... | - | 372,888 |
| Other Liabilities..... | - | 870,017 |
| Accrued Compensated Absences..... | 422,638 | 859,992 |
| Accrued Public Liability and Worker Compensation..... | - | - |
| Refundable Deposits..... | (2,328,292) | - |
| Prepaid Revenue..... | - | 3,629,283 |
| Accrued Salaries and Wages..... | (382,656) | (756,501) |
| Net Cash Provided by (Used in) Operating Activities..... | <u>\$ 144,977,231</u> | <u>\$ (155,156,561)</u> |

See accompanying notes to basic financial statements.

Business-Type Activities

| Water | | Automobile | | Non-Major | | Total | |
|--------------|-------------|-------------------|-------------|------------------|-------------|--------------|--------------|
| Fund | | Parking | | Fund | | | |
| | | Fund | | | | | |
| \$ | 75,387,718 | \$ | 5,537,271 | \$ | (2,054,308) | \$ | 4,103,167 |
| | 54,628,100 | | 5,272,768 | | 638,520 | | 148,971,736 |
| | - | | - | | - | | (168,640) |
| | - | | - | | - | | 20,321,418 |
| | - | | - | | - | | (3,348,794) |
| | 2,231,779 | | - | | 444,633 | | (30,643,331) |
| | (2,637,254) | | - | | - | | (556,273) |
| | 1,862,234 | | - | | - | | 440,553 |
| | (5,362,507) | | 319,110 | | 50,528 | | (10,034,826) |
| | - | | - | | - | | (145,166) |
| | 2,949,862 | | (585,930) | | 237,971 | | (17,159,554) |
| | 23,176,196 | | (593,347) | | 812,268 | | 23,395,117 |
| | - | | (5,439) | | - | | (5,439) |
| | 6,558,012 | | (2,010,923) | | (239,496) | | (14,155,795) |
| | - | | - | | - | | (11,037,009) |
| | - | | 370,383 | | 14,264 | | 44,158,550 |
| | - | | - | | - | | 372,888 |
| | - | | 1,496,199 | | (103,435) | | 2,262,781 |
| | - | | 198,789 | | 135,910 | | 1,617,329 |
| | 3,949,904 | | 821,702 | | (140,413) | | 4,631,193 |
| | - | | - | | 117,662 | | (2,210,630) |
| | - | | - | | (7,495) | | 3,621,788 |
| | (465,438) | | (81,623) | | (38,100) | | (1,724,318) |
| \$ | 162,278,606 | \$ | 10,738,960 | \$ | (131,491) | \$ | 162,706,745 |

(Concluded)

City of Detroit, Michigan
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

| ASSETS | Pension and Other Employee Benefit Funds | Agency Funds | Total |
|--|--|--------------|------------------|
| Cash and Cash Equivalents..... | \$ 23,495,906 | \$ 2,620,612 | \$ 26,116,518 |
| Investments at Fair Value: | | | |
| Short-Term Investments..... | 142,749,047 | - | 142,749,047 |
| Commercial Paper..... | 10,076,779 | - | 10,076,779 |
| U.S. Government Obligations..... | 15,372 | - | 15,372 |
| Bonds and Stocks..... | 5,696,902,360 | - | 5,696,902,360 |
| Mortgage-Backed Securities..... | 253,409,833 | - | 253,409,833 |
| Mortgage and Construction Loans..... | 239,137,436 | - | 239,137,436 |
| Equity Interest in Real Estate..... | 196,517,114 | - | 196,517,114 |
| Real Estate Investment Trusts Held by Custodian..... | 60,374,430 | - | 60,374,430 |
| Pooled Investments..... | 508,333,470 | 11,112,960 | 519,446,430 |
| Private Placements..... | 385,884,040 | - | 385,884,040 |
| Total Investments..... | 7,493,399,881 | 11,112,960 | 7,504,512,841 |
| Accrued Interest Receivable..... | 37,850,927 | - | 37,850,927 |
| Accounts Receivable: | | | |
| Due from Primary Government..... | 107,064,939 | - | 107,064,939 |
| Due from Component Units..... | 1,117,158 | - | 1,117,158 |
| Other Receivables..... | 227,429,359 | - | 227,429,359 |
| Total Accounts Receivable..... | 335,611,456 | - | 335,611,456 |
| Cash and Investments Held as Collateral for Securities Lending | 1,576,364,185 | - | 1,576,364,185 |
| Other Assets..... | 835,498 | - | 835,498 |
| Total Assets..... | 9,467,557,853 | 13,733,572 | 9,481,291,425 |
| LIABILITIES AND NET ASSETS | | | |
| Accounts and Contracts Payable..... | 30,506,805 | 1,722,138 | 32,228,943 |
| Due to Broker..... | 276,688,705 | - | 276,688,705 |
| Benefits and Claims Payable..... | 8,262,135 | - | 8,262,135 |
| Due to Primary Government..... | 3,176,164 | 631,384 | 3,807,548 |
| Amount Due to Broker for Securities Lending..... | 1,576,364,185 | - | 1,576,364,185 |
| Other Liabilities..... | 47,605,641 | 11,380,050 | 58,985,691 |
| Total Liabilities..... | 1,942,603,635 | 13,733,572 | 1,956,337,207 |
| Net Assets: | | | |
| Net Assets Held in Trust for Pension and Employee Benefits..... | \$ 7,524,954,218 | \$ - | \$ 7,524,954,218 |

See accompanying notes to basic financial statements.

City of Detroit, Michigan
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

| | Pension and Other Employee Benefit Funds |
|--|---|
| ADDITIONS: | |
| Employer Contributions..... | \$ 388,686,169 |
| Plan Member Contributions..... | 51,663,157 |
| Other Income..... | - |
| Total Contributions..... | <u>440,349,326</u> |
| Investment Gain | 761,357,026 |
| Total Additions..... | <u>1,201,706,352</u> |
| DEDUCTIONS: | |
| Pension and Annuity Benefits..... | 419,023,300 |
| Premiums to Insurers and Damage Claims..... | 293,969,275 |
| Benefits..... | 2,284,633 |
| Refunds..... | 136,578,204 |
| General and Administrative Expenses..... | <u>11,223,334</u> |
| Total Deductions..... | <u>863,078,746</u> |
| Net Increase..... | 338,627,606 |
| Net Assets Held in Trust for Pension and Employee Benefits, Beginning of Year..... | <u>7,186,326,612</u> |
| Net Assets Held in Trust for Pension and Employee Benefits, End of Year..... | <u>\$ 7,524,954,218</u> |

See accompanying notes to basic financial statements.

City of Detroit, Michigan
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2006

| | Detroit Brownsfield Redevelopment Authority | Detroit Public Library (Unaudited) | Downtown Development Authority | Economic Development Corporation | Local Development Finance Authority |
|--|--|---|--------------------------------------|--|--|
| ASSETS: | | | | | |
| Cash and Cash Equivalents..... | \$ 521,344 | \$ 971,867 | \$ 881,319 | \$ 7,661,888 | \$ 5,355,048 |
| Escrow Deposits-Cash..... | - | - | 145,794 | 21,341,055 | - |
| Investments, including Accrued Interest..... | - | 11,443,821 | 81,208,006 | 21,294,264 | - |
| Accounts and Contracts Receivable: | | | | | |
| Due from Primary Government..... | - | 8,035,165 | - | - | - |
| Due from Other Governments..... | - | 1,789,658 | - | - | - |
| Other Receivables..... | 75,000 | 10,448,308 | 36,459,633 | 1,191,713 | - |
| Total Accounts and Contracts Receivable | 75,000 | 20,273,131 | 36,459,633 | 1,191,713 | - |
| Allowance for Doubtful Accounts..... | - | (8,650,000) | (36,661) | - | - |
| Total Accounts and Contracts Receivable - Net..... | 75,000 | 11,623,131 | 36,422,972 | 1,191,713 | - |
| Inventory..... | - | 3,224,483 | - | - | - |
| Prepaid Expenditures/Expenses..... | 12,020 | - | 95,564 | - | - |
| Taxes, Interest, and Penalties Receivable - Net..... | - | 1,005,000 | 6,387,777 | - | - |
| Loans and Notes Receivable..... | - | - | 25,399,336 | 1,782,375 | - |
| Unamortized Bond and Note Issue Costs- Net..... | - | 1,345,292 | 3,307,981 | - | - |
| Net Pension Asset..... | - | 22,791,256 | - | - | - |
| Restricted Cash..... | - | 2,240,236 | - | - | - |
| Restricted Investments..... | - | 7,163,289 | - | - | 28,807,614 |
| Capital Assets: | | | | | |
| Land..... | - | 1,371,996 | 7,544,670 | - | - |
| Artwork..... | - | 1,230,175 | - | - | - |
| Plant and Equipment..... | - | 168,295,785 | 26,833,841 | - | - |
| Construction Work in Progress..... | - | - | - | - | - |
| Less: Depreciation..... | - | (151,801,986) | (3,101,428) | - | - |
| Capital Assets, Net..... | - | 19,095,970 | 31,277,083 | - | - |
| Other..... | - | - | 14,070,234 | 101,324 | - |
| Deferred Charges..... | - | - | - | - | - |
| Total Assets..... | 608,364 | 80,904,345 | 199,196,066 | 53,372,619 | 34,162,662 |
| LIABILITIES: | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable and Contracts Payable..... | 12,460 | 806,349 | 1,315,560 | 6,541,587 | 127,411 |
| Interest Payable..... | - | - | 5,931,374 | 173,624 | 769,595 |
| Due to Primary Government..... | - | 2,265,772 | - | - | - |
| Loans and Advances from Primary Government..... | - | 1,763,762 | - | 64,983 | - |
| Accrued Salaries and Wages..... | - | 319,753 | - | - | - |
| Deferred Revenues..... | - | 808,364 | - | - | - |
| Other Current Liabilities..... | - | 474,394 | 7,757,105 | - | - |
| State Aid Anticipation and Other Notes Payable..... | - | - | - | - | - |
| Bonds, Notes, and Other Debt Payables-Current..... | - | - | 11,865,000 | 1,363,927 | 3,285,000 |
| Unamortized Premiums and Defeasances..... | - | - | (70,303) | - | - |
| Bonds, Notes and Other Debt Payable-Current-Net..... | - | - | 11,794,697 | 1,363,927 | 3,285,000 |
| Accrued Compensated Absences..... | - | 143,769 | - | - | - |
| Accrued Public Liability and Workers Compensation..... | - | 8,356 | - | - | - |
| Non-current Liabilities: | | | | | |
| Bonds, Notes, and Other Debt Payables-Noncurrent..... | - | - | 146,298,500 | 900,000 | 79,555,000 |
| Unamortized Premiums and Defeasances..... | - | - | (1,422,427) | - | - |
| Bonds, Notes and Other Debt Payable-Non-current-Net..... | - | - | 144,876,073 | 900,000 | 79,555,000 |
| Advance Payable to Primary Government for POC's..... | - | 24,554,826 | - | - | - |
| Deferred Amount on Refunding-Advance to Primary Government for POC's..... | - | (513,048) | - | - | - |
| Accrued Compensated Absences..... | - | 4,996,620 | - | - | - |
| Accrued Public Liability and Workers Compensation..... | - | 158,543 | - | - | - |
| Total Liabilities..... | 12,460 | 35,787,460 | 171,674,809 | 9,044,121 | 83,737,006 |
| NET ASSETS: | | | | | |
| Invested in Capital Assets, Net of Related Debt..... | - | 19,095,970 | 31,277,083 | - | - |
| Restricted for: | | | | | |
| Restricted (Non-Expendable)..... | - | 10,653,525 | - | - | 5,088,321 |
| Capital Projects..... | 472,953 | - | - | 44,125,389 | - |
| Debt Service..... | - | - | - | - | 28,177,335 |
| Unrestricted (Deficit)..... | 122,951 | 15,367,390 | (3,755,826) | 203,109 | (82,840,000) |
| Total Net Assets (Deficit) | \$ 595,904 | \$ 45,116,885 | \$ 27,521,257 | \$ 44,328,498 | \$ (49,574,344) |

See accompanying notes to basic financial statements.

| Museum of African American History | Tax Incremental Finance Authority | Detroit Transportation Corporation | Greater Detroit Resource Recovery Authority | Total |
|---|--|--|--|----------------|
| \$ 667,594 | \$ - | \$ 1,331,271 | \$ - | \$ 17,390,331 |
| - | - | - | - | 21,486,849 |
| 489,449 | - | 4,004,967 | - | 118,440,507 |
| - | - | 1,897,542 | - | 9,932,707 |
| - | - | - | - | 1,789,658 |
| 3,433,096 | - | 811,470 | 5,436,924 | 57,856,144 |
| 3,433,096 | - | 2,709,012 | 5,436,924 | 69,578,509 |
| (70,542) | - | - | - | (8,757,203) |
| 3,362,554 | - | 2,709,012 | 5,436,924 | 60,821,306 |
| 139,434 | - | 3,967,615 | - | 7,331,532 |
| - | - | 619,164 | 1,342,836 | 2,069,584 |
| - | - | - | - | 7,392,777 |
| - | - | - | - | 27,181,711 |
| - | - | - | 727,582 | 5,380,855 |
| - | - | - | - | 22,791,256 |
| - | - | - | 3,680,134 | 5,920,370 |
| - | - | 9,524,882 | 137,826,977 | 183,322,762 |
| - | - | 5,122,237 | 8,873,234 | 22,912,137 |
| - | - | 1,986,000 | - | 3,216,175 |
| 10,340,446 | - | 185,997,357 | 513,200,272 | 904,667,701 |
| - | - | 6,606,849 | - | 6,606,849 |
| (3,953,142) | - | (125,988,946) | (201,272,509) | (486,118,011) |
| 6,387,304 | - | 73,723,497 | 320,800,997 | 451,284,851 |
| - | - | - | - | 14,171,558 |
| - | - | - | 708,149 | 708,149 |
| 11,046,335 | - | 95,880,408 | 470,523,599 | 945,694,398 |
| 1,416,906 | - | 1,561,656 | 19,092,300 | 30,874,229 |
| - | - | - | 963,192 | 7,837,785 |
| - | - | - | 1,161,326 | 3,427,098 |
| - | - | - | - | 1,828,745 |
| 159,619 | - | 330,061 | - | 809,433 |
| - | - | 650,407 | - | 1,458,771 |
| - | - | 3,000,000 | - | 11,231,499 |
| - | - | - | - | - |
| 695,314 | - | - | 58,205,000 | 75,414,241 |
| - | - | - | - | (70,303) |
| 695,314 | - | - | 58,205,000 | 75,343,938 |
| - | - | - | - | 143,769 |
| - | - | - | - | 8,356 |
| - | - | - | 316,176,774 | 542,930,274 |
| - | - | - | - | (1,422,427) |
| - | - | - | 316,176,774 | 541,507,847 |
| - | - | - | - | 24,554,826 |
| - | - | - | - | (513,048) |
| - | - | 363,311 | - | 5,359,931 |
| - | - | - | - | 158,543 |
| 2,271,839 | - | 5,905,435 | 395,598,592 | 704,031,722 |
| 6,025,204 | - | 73,723,497 | 126,453,113 | 256,574,867 |
| 253,875 | - | - | - | 15,995,721 |
| 2,203,577 | - | 6,524,883 | - | 53,326,802 |
| - | - | - | - | 28,177,335 |
| 291,840 | - | 9,726,593 | (51,528,106) | (112,412,049) |
| \$ 8,774,496 | \$ - | \$ 89,974,973 | \$ 74,925,007 | \$ 241,662,676 |

(Continued)

City of Detroit, Michigan
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the Year Ended June 30, 2006

| | Detroit Brownfield Redevelopment Authority | Detroit Public Library (Unaudited) | Downtown Development Authority | Economic Development Corporation |
|---|---|---|---|---|
| Expenses..... | \$ (442,315) | \$ (42,490,135) | \$ (43,000,694) | \$ (12,587,840) |
| Program Revenues: | | | | |
| Charges for Services..... | 150,000 | 483,519 | 19,018,000 | 28,617,281 |
| Operating Grants and Contributions..... | 129,747 | 1,668,297 | - | - |
| Total Program Revenues..... | 279,747 | 2,151,816 | 19,018,000 | 28,617,281 |
| Net Program (Expenses) Revenue..... | (162,568) | (40,338,319) | (23,982,694) | 16,029,441 |
| General Revenues: | | | | |
| Property Taxes - Levied for General Purposes..... | 500,140 | 37,945,560 | 32,299,042 | - |
| Investment Income..... | - | 498,618 | - | 590,478 |
| Interest and Penalties on Taxes..... | 9,950 | 686,052 | - | - |
| Shared Taxes..... | - | 2,552,025 | - | - |
| Other Taxes and Assessments..... | - | 1,424,459 | - | - |
| Other Non Operating..... | - | 1,918,780 | 104,540 | - |
| Total General Revenues..... | 510,090 | 45,025,494 | 32,403,582 | 590,478 |
| Change in Net Assets..... | 347,522 | 4,687,175 | 8,420,888 | 16,619,919 |
| Net Assets (Deficit) - Beginning of Year..... | 248,382 | 40,429,710 | 19,100,369 | 27,708,579 |
| Net Assets (Deficit) - End of Year..... | \$ 595,904 | \$ 45,116,885 | \$ 27,521,257 | \$ 44,328,498 |

See accompanying notes to basic financial statements.

| Local Development Finance Authority | Museum of African American History | Tax Increment Finance Authority | Detroit Transportation Corporation | Greater Detroit Resource Recovery Authority | Totals |
|--|---|--|--|--|------------------|
| \$ (7,590,084) | \$ (10,208,400) | \$ (11,301,476) | \$ (20,666,354) | \$ (113,727,977) | \$ (262,015,275) |
| - | 1,866,749 | - | 998,621 | 48,210,148 | 99,344,318 |
| - | 1,444,503 | - | 10,225,752 | 80,090,959 | 93,559,258 |
| - | 3,311,252 | - | 11,224,373 | 128,301,107 | 192,903,576 |
| (7,590,084) | (6,897,148) | (11,301,476) | (9,441,981) | 14,573,130 | (69,111,699) |
| 11,350,812 | - | 11,301,476 | - | - | 93,397,030 |
| 1,469,376 | (10,620) | - | (496,077) | 3,365,360 | 5,417,135 |
| - | - | - | - | - | 696,002 |
| - | - | - | - | - | 2,552,025 |
| 1,000,000 | - | - | - | - | 2,424,459 |
| 1,072,744 | 6,489,189 | - | 3,121,025 | - | 12,706,278 |
| 14,892,932 | 6,478,569 | 11,301,476 | 2,624,948 | 3,365,360 | 117,192,929 |
| 7,302,848 | (418,579) | - | (6,817,033) | 17,938,490 | 48,081,230 |
| (56,877,192) | 9,193,075 | - | 96,792,006 | 56,986,517 | 193,581,446 |
| \$ (49,574,344) | \$ 8,774,496 | \$ - | \$ 89,974,973 | \$ 74,925,007 | \$ 241,662,676 |

(Continued)

NOTES
TO BASIC
FINANCIAL
STATEMENTS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Detroit (the City), incorporated in 1806, is a home rule city under State of Michigan law. The City is organized into two separate branches: (1) the executive branch, which is headed by the Mayor and (2) the legislative branch, which is composed of the City Council and its agencies. Other agencies (City Clerk and Election) are not classified under the two branches. The City provides the following services as authorized by its charter: public protection, public works, recreation and culture, health, economic development, public lighting, transportation, water and sewage, airport, and parking.

A. REPORTING ENTITY

As required by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the financial statements of the reporting entity include those of the City (the primary government) and its component units. Component units are legally separate organizations for which the elected officials of the City are financially accountable, or the relationship to the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The 12 component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Note that this number of component units is amended from the 14 component units in fiscal year 2005 that included the Detroit Housing Commission and School District of the City of Detroit (Detroit Public Schools), both formerly Discretely Presented Component Units presented in the City's 2005 financial statements. Housing and Urban Development (HUD) oversees Detroit Housing Commission's reporting responsibilities. Detroit Public Schools is now reporting to a voter elected "Detroit Board of Education."

1. Blended Component Units:

Detroit Building Authority (DBA): The City of Detroit Building Authority (DBA) is included in the operations and activities of the City because it was incorporated for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, or maintaining a building or buildings (including but not limited to health and public safety facilities), automobile parking lots or structures (independently or adjunct to other buildings), recreational facilities, and the necessary site or sites, together with appurtenant properties and facilities necessary or convenient for the effective use thereof, all for the use of any legitimate public purpose of the City. Financing is provided by the issuance of bonds secured by lease agreements with the City and from grants received by the City.

Detroit General Retirement System Service Corporation (DGRSSC) and Detroit Police and Fire Retirement System Service Corporation (DPFRSSC):

DGRSSC and DPFRSSC are Michigan nonprofit corporations incorporated by the City pursuant to State Law. The DGRSSC and DPFRSSC were formed to assist the City in maintaining the actuarial integrity of the City's two pension systems. The governing body of each corporation is its Board of Directors, each of which consists of three officials of the City, the Finance Director, the Budget Director and the Corporation Counsel, plus two members of the City Council, selected and appointed by the City Council.

In May 2005, the City entered into a separate service contract with each of the DGRSSC and the DPFRSSC, in which the City contractually obligated itself to make periodic payments to the corporations in return for their service of reducing the financial burden of the City's pension costs. The DGRSSC and the DPFRSSC, severally and not jointly, entered into a Trust Agreement with U.S. Bank National Association, as Trustee, which created the Detroit Retirement Systems Funding Trust 2005 (DRSFT), a grantor trust established and existing under Michigan law. The DGRSSC and DPFRSSC sold and assigned to the DRSFT their rights to receive certain of the payments to be received from the City under the service contracts.

2. Discretely Presented Component Units:

Component units, which are not blended as part of the primary government, are discretely presented by reporting component unit financial data in a column separate from the financial data of the primary government. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units presented in this manner are the following:

Detroit Brownfield Redevelopment Authority (DBRA): The DBRA was created by a City Council resolution and approved by the Mayor in April 1998, under the provisions of Act 381, Public Acts of Michigan of 1996. DBRA was established to create Brownfield redevelopment zones and promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax-reverted, blighted, or functionally obsolete property.

Detroit Public Library (DPL): The DPL is a statutory body created by the State. The DPL was created to provide reference materials, research information, and publications to residents of the City and the County. Funding is provided by an ad valorem tax of 3.63 mills in real and personal property taxes in the City. In addition, DPL receives grants and endowments from private organizations. City Council is responsible for approving DPL's annual budget.

Downtown Development Authority (DDA): The DDA was created to promote and develop economic growth in the City's downtown business district. Funding is provided by an ad valorem tax of 1.0 mill on real and personal property in the downtown development district, a levy on the increased assessed value of a tax increment district, and issuance of revenue and tax increment bonds.

Economic Development Corporation (EDC): The EDC was established to create and implement project plans for designated project areas within the City, and thus encourage the location and expansion of industrial and commercial enterprises within the City. The EDC is primarily funded by means of grants from the City.

Local Development Finance Authority (LDFA): The LDFA was created to finance certain improvements for local public roads in the vicinity of the Chrysler Jefferson Avenue Assembly Plant. Incremental portions of the City and the County of Wayne (the County) property taxes fund LDFA.

Museum of African American History (MAAH): The MAAH was created to provide research, compilation, presentation, publication, and dissemination of knowledge relating to the history, growth, development, heritage, and culture of people of African descent and the human struggle for freedom. The MAAH is primarily funded by means of private grants and grants from the City.

Tax Increment Finance Authority (TIFA): The TIFA was created to acquire property and provide financing for residential and commercial development programs through issuance of long-term debt secured by tax increment financing.

Detroit Transportation Corporation (DTC): The DTC was established in 1985 to oversee construction and operation of the Central Automated Transit System (People Mover) in downtown Detroit. The DTC is primarily funded by means of grants from the City.

Greater Detroit Resource Recovery Authority (GDRRA): The GDRRA was established by the cities of Detroit and Highland Park for the acquisition, construction, and operation of a waste-to-energy facility. The financing was provided by the issuance of revenue bonds.

Complete financial statements of the individual blended and discretely presented component units can be obtained directly from the following administrative offices:

Detroit Building Authority
2800 Cadillac Tower
65 Cadillac Square
Detroit, MI 48226
(313) 224-7242

Economic Development Corporation
500 Griswold, Suite 2200
Detroit, Michigan 48226
(313) 237-4616

Detroit General Retirement System
Service Corporation
Coleman A. Young Municipal Center, Room 1200
2 Woodward Avenue
Detroit, Michigan 48226
(313) 224-3380

Local Development Finance Authority
500 Griswold, Suite 2200
Detroit, Michigan 48226
(313) 237-4616

Detroit Police & Fire Retirement System
Service Corporation
Coleman A. Young Municipal Center, Room 1200
2 Woodward Avenue
Detroit, Michigan 48226
(313) 224-3380

Museum of African American History
315 East Warren Avenue
Detroit, MI 48201
(313) 494-5800

Detroit Brownfield Redevelopment Authority
500 Griswold, Suite 2200
Detroit, Michigan 48226
(313) 237-4616

Tax Increment Finance Authority
500 Griswold, Suite 2200
Detroit, Michigan 48226
(313) 237-4616

Detroit Public Library
5201 Woodward Avenue
Detroit, MI 43202
(313) 833-1000

Detroit Transportation Corporation
1420 Washington Blvd., 3rd Floor
Detroit, MI 48226
(313) 224-2160

Downtown Development Authority
500 Griswold, Suite 2200
Detroit, Michigan 48226
(313) 237-4616

Greater Detroit Resource Recovery Authority
5700 Russell Street
Detroit, MI 48211
(313) 876-0449

3. Related Organizations:

The City has in place certain Memorandums of Understanding (i.e., Contracts) for the operations of certain City-owned assets with the following private non-profit corporations:

Detroit Historical Society
Detroit Institute of Arts
Detroit Zoological Society

The City's accountability for these organizations does not extend beyond these Contracts.

The Mayor is responsible for appointing the members of the board of the Northwest Community Programs, Inc., a private non-profit corporation, but the City's accountability for this organization does not extend beyond making the appointments.

B. JOINT VENTURE

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity, subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The City participates in the following joint venture:

The Detroit-Wayne Joint Building Authority (DWJBA) was created as a corporate instrumentality in 1948 by agreement between the City and Wayne County. All revenues or other monies received by the DWJBA must be disbursed for specific purposes in accordance with agreements with the incorporating units and the holders of the bonds. In March 1988, the City and County agreed to a consent judgment whereby the County's equity in the ownership of a portion of the space in the Coleman A. Young Municipal Center was transferred to the City. As a result, the fixed asset costs are recorded within the City's government-wide financial statements.

The DWJBA is party to a lease agreement that extends to March 1, 2028 for rental of the Coleman A. Young Municipal Center to the City and the County. The lease provides that the DWJBA shall maintain and operate the building, the expenditures of which are to be reimbursed by the City and County on the basis of the building space allocations specified in the lease. Also, the extended lease agreement identified the intention to renovate space occupied by the County and provided the commitment of the County to enter into a separate supplemental lease for the repayment for the debt used in the renovations. Therefore, the County has an ongoing financial responsibility.

Complete financial statements of the DWJBA may be obtained by writing the DWJBA at the following address:

Detroit-Wayne Joint Building Authority
1316 Coleman A. Young Municipal Center (CAYMC)
Detroit, MI 48226

C. BASIS OF PRESENTATION

The basic financial statements include both government-wide and fund financial statements.

1. Government-wide Financial Statements

The government-wide statement of net assets and statement of activities report the overall financial activity of the primary government (the City), excluding fiduciary activities, and its component units. Eliminations have been made to minimize the double counting of internal activities of the City. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary fund types. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Proprietary fund operating revenues, such as charges for services primarily result from exchange transactions associated with the

principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City uses the following major funds:

Governmental Funds:

- a. **General Fund** accounts for several of the City's primary services (Police, Fire, Public Works, Community and Youth Services, etc.) and is the primary operating unit of the City.
- b. **Detroit General Retirement System Service Corporation Fund** accounts for the proceeds and service payments related to the issuance of the Pension Obligation Certificates in June of 2005 and refunding in 2006.
- c. **Police & Fire Retirement System Service Corporation Fund** accounts for the proceeds and service payments related to the issuance of the Pension Obligation Certificates in June of 2005 and refunding in 2006.

Proprietary Funds:

- a. **Sewage Disposal Fund** accounts for the operations of the wastewater treatment plant, sewers, including sanitary and combined sewers, combined sewer outfalls, and interceptors. The facility provides service to Detroit and 75 other communities in southeastern Michigan.
- b. **Transportation Fund** accounts for the City's mass transit system with a fleet of over 572 coaches. The fund operates three light repair garages and terminals.
- c. **Water Fund** accounts for the operations of five water treatment plants, 20 booster stations, a transmission and distribution system and reservoirs. The fund provides service to Detroit and 125 other communities in southeastern Michigan.
- d. **Automobile Parking Fund** accounts for the activity of the City's Auto Parking and Arena System, but does not include parking fine revenues.

Fiduciary Funds:

- a. **Pension and Other Employee Benefit Funds** account for moneys held in trust by the City for pension benefits and other employee benefits. The City uses pension trust funds to account for the retirement plans for civilian employees, firefighters and police officers. The Employee Benefit funds accounts for various health and long-term disability benefits for employees and retirees.
- b. **Agency Funds** account for transactions for assets held by the City as agent for certain activities or for various entities. Payroll deductions and special deposits are the primary transactions accounted for in these funds.

D. BASIS OF ACCOUNTING

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include income taxes, sales taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from self-assessed taxes, including income taxes and sales tax, is recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must

provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year, except for grants and trade receivables, which are 180 and 90 days, respectively. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, compensated absences and other long-term obligations are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt, pension obligation certificates and acquisitions under capital leases are reported as other financing sources. Significant revenue sources, which are susceptible to accrual, include property taxes, income taxes, utility taxes, and interest. All other revenue sources are considered to be measurable and available only when cash is received.

Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Bulletins (APB) opinions and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The City also has the option of following subsequent FASB guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent FASB guidance.

E. ASSETS, LIABILITIES, AND FUND EQUITY

1. **Cash and Investments:** Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date of acquisition by the City. The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, domestic certificates of deposit, certain commercial paper, U.S. government repurchase agreements, bankers acceptances, mutual funds and investment pools that are composed of authorized investment vehicles. Investments are reported at fair value.

The Retirement Systems and the Employees' Benefit Fund are authorized by Michigan Public Act 314 of 1965 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. Such investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

2. **Interfund Transactions:**

The City has the following types of interfund transactions:

- a. **Advances** – amounts provided with a requirement for long-term repayment. Interfund advances are reported as due from other funds in lender funds and due to other funds in borrower funds.
- b. **Services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.
- c. **Reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

- d. **Transfers** – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.
3. **Inventories:** Cost of inventories of the governmental-type funds is recorded as expenditures at the time of purchase. Inventories at year-end for the General, Construction Code and Major and Local Street funds are recorded in the balance sheet at cost while Drug Law Enforcement Fund (police seized inventory) is recorded at market value, based on a physical inventory. A reserve for inventories is in the fund balance of the related fund. The inventories reserve increase (decrease) from year to year is displayed on the CAFR separate from their respective fund balances below their beginning fund balance. Inventories of the Enterprise Funds are stated at the lower of cost or market and expensed when used.
4. **Capital Assets:** Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Donated assets are recorded at fair market value as of the date received. The City's capitalization levels are \$5,000 on tangible personal property and for improvements other than buildings, and \$50,000 on infrastructure, including sewer and storm water lines. All acquisitions of land and land improvements will be capitalized regardless of cost. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capitalized interest, net of related debt, for the year ended June 30, 2006 for the Sewage Disposal and Water Funds was \$54,012,814 and \$18,812,748, respectively. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement, and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures, and changes in fund balances as proceeds from sale. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | <u>Years</u> |
|--|--------------|
| Land improvements | 5 – 20 |
| Buildings and building improvements | 5 – 50 |
| Improvements other than buildings | 5 – 50 |
| Equipment and machinery | 5 – 20 |
| Vehicles other than buses | 3 – 10 |
| Buses | 12 |
| Stormwater and wastewater lines and pump stations | 10 – 65 |
| Other infrastructure | 7 – 60 |

The City has a collection of artwork presented both in buildings and public outdoor spaces. The true value of the art is expected to either be maintained at cost or appreciate over time, and thus, the art is not depreciated. If individual pieces are lost or destroyed, the loss is recorded.

5. **Bond Premiums, Discounts, Issuance Costs and Deferred Amount on Refunding:** In the government-wide and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs and losses (deferred amount) on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, gains (losses) on defeasance and deferred amounts on refunding. Bond premiums, discounts and issuance gains and costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums or discounts and gains or losses on defeasance, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. **Encumbrances:** Encumbrances outstanding for governmental funds at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. All governmental fund budgets are maintained on the modified accrual basis of accounting, except budgetary-basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year-end.
7. **Compensated Absences:** For funds other than the Transportation Fund, unused vacation pay and banked overtime accumulate up to a maximum level until termination of employment, while there is no vesting of sick pay until an employee reaches age 60 or completes 25 years of service. Furlough time is awarded to uniformed police and fire employees at the beginning of two semi-annual periods. Any unused furlough time remaining at the end of each semi-annual period is forfeited. For the Transportation Fund, unused vacation pay accumulates for each employee up to a maximum level. Once this level is attained, unused vacation must be used or the employee loses a portion of the vacation pay.

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation and sick leave balances. A liability for these amounts is reported in governmental funds only if they have matured.

8. **Property Taxes:** The State Constitution limits the proportion of true cash value at which real property can be uniformly assessed to 50%. The Michigan Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government are responsible for actually assessing at 50% of true cash value, the final State equalized assessment against which local property tax rates are applied is derived through several steps. County equalization is brought about by adjustments of the various local unit assessment ratios to the same level; then the State equalizes the various counties in relation to each other. State equalized values are important; aside from their use for local property tax levy purposes, because of their role in distribution of State school aid and in the calculation of debt limits. The only major items of personal property subject to property taxation in the City are commercial and industrial furniture, fixtures, and equipment. Though comprehensive authority is granted by the State to Michigan municipalities for governmental purposes, the Constitution and general laws of the State limit the municipal rate of taxation and restrict the amount of debt a municipality may incur. At the present time, the general ad valorem taxing power of the City is generally limited by State law and the City Charter to 20 mills. The City is levying at its current maximum rate limit. In addition, the City is authorized to levy additional taxes within specified amounts for specific purposes under specific legislation. At the present time, under such an authorization, the City is levying 3 additional mills for the purpose of garbage and rubbish collection. These millage limitations, however, do not apply to taxes levied by the City for payment of principal and interest on presently outstanding unlimited tax-supported bonds, nor do they apply to payment of principal and interest on tax-supported bonds issued in anticipation of presently outstanding contractual obligations of the City or presently outstanding assessments in the City.

The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31 in full, or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. Property owners may appeal their assessments to the local Board of Review and ultimately to the Michigan Tax Tribunal.

In the government-wide financial statements, property tax revenue is recorded in the period in which the tax is levied. In the governmental fund financial statements, the City records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or collected within 60 days thereafter.

9. **Municipal Income Taxes:** The City levies an annual income tax. The rate for the calendar year 2006 consists of an annualized tax of 2.50% on the income of resident individuals, 1.25% on income earned in the City by non-residents and for corporations the annual rate for 2006 is 1.0%. These rates are being lowered over a 10-year period starting July 1, 1999. The resident rate will decrease by 1/10 of a percentage point, the non-resident rate by 1/20 of a percentage point, and the corporate rate by 2/10 of a percentage point over the same period. After the 10-year period, the calendar 2009 resident rate will be 2%, the non-resident rate will be 1%, and the corporate rate will be zero. However, due to current economic conditions there was a temporary rate freeze of the tax rates for the calendar year 2005. The rates were as follows: residents 2.5%, non-residents 1.25% and corporations 1%. The City has re-applied for, and received, approval for the rate freeze to remain in effect for calendar years 2006 and 2007. Municipal income taxes are accrued for income tax withholdings collected by employers but not yet remitted to the City. In the

government-wide financial statements, income tax revenue is recorded in the period in which the underlying compensation is earned by the taxpayer. In the governmental fund financial statements, the City records municipal income tax revenues when they become available. Available is defined as due and receivable within the current fiscal year or expected to be collected within 60 days thereafter. Estimated refunds for income tax returns received and in process, in which payment has not been made, are recorded as a reduction of revenues. Income tax assessment receivable represents estimated additional taxes assessed as a result of tax return audits or failure to file a return.

10. Fund Balances: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative City plans that are subject to change.

11. Net Assets: The government-wide and proprietary fund financial statements utilize a net asset presentation. Net assets are categorized as follows:

- a. **Invested in Capital Assets Net of Related Debt** – consists of capital assets, net of accumulated depreciation. The outstanding balances of bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets would further reduce this component. If there were significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds would be offset by the outstanding debt.
- b. **Restricted Assets** – consist of constraints placed on net asset use through external constraints imposed by grantors, contributors, laws, or enabling legislation. When both restricted and unrestricted resources are available, generally it is the City's policy to use restricted resources first, and then unrestricted resources, when they are needed.
- c. **Unrestricted Assets** – Consist of net assets that do not meet the definition of "Restricted" or "Invested in Capital Assets, net of related debt."

12. Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

13. Change in certain Discretely Presented Component Units included in Reporting Entity:

Detroit Housing Commission

In an agreement dated July 7, 2005, the United States Department of Housing and Urban Development (HUD) signed a cooperative endeavor agreement with the City. The agreement called for the City to transfer all of Detroit Housing Commission (DHC) assets, projects and programs to HUD and for HUD to manage the day-to-day operations and reporting requirements of the DHC. The assets, liabilities, net assets and activities of DHC were included in the City's 2005 financial statements as a discrete component unit. Because of the aforementioned change in control, DHC's financial statements are not included in the City's financial statements for the year ended June 30, 2006.

City of Detroit Public Schools

In November, 2005, a general election referendum was passed which transferred control of the School District of the City of Detroit (School District) to the newly elected eleven (11) member school board, effective January 1, 2006. The assets, liabilities, net assets and activities of the School District were included in the City's financial statements for the year ended June 30, 2005. Because of the aforementioned change in control, the School District's financial statements are not included in the City's financial statements for the year ended June 30, 2006.

To reflect the change in reporting entity caused by elimination of DHC and the School District from the discretely presented component units of the City, previously presented net assets of discrete component units have been restated as follows:

| | |
|---|----------------|
| Net assets of discrete component units as previously presented at June 30, 2005 | \$ 261,228,121 |
| Less: DHC previously reported net assets at June 30, 2005 | (98,824,278) |
| Plus: School District previously reported | |

net deficit at June 30, 2005 31,177,603

Net assets of discrete component units as
restated at June 30, 2005 \$ 193,581,446

- 14. New Accounting Pronouncements:** The City adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* during the year ended June 30, 2006. This Statement establishes accounting and financial reporting standards for impairment of capital assets. No significant changes were made to the recorded value of capital assets based on the City's implementation of this pronouncement.

In July 2004, GASB issued *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the City will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City is also required to record a net OPEB obligation which is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. The City is currently evaluating the impact that this standard will have on the financial statements when adopted. The City will implement *Statement No. 45* beginning with the fiscal year ended June 30, 2008.

In June 2005, GASB issued *Statement No. 46, Net Assets Restricted by Enabling Legislation*. This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. It amends *GASB Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, paragraph 34. This statement enhances usefulness and comparability of net asset information reported by state and local governments by clarifying the meaning of *legally enforceable restrictions* imposed on net assets by enabling legislation or restrictions imposed by an external party (citizens, public interest groups or judiciary) that compel a government to use resources created by enabling legislation only for the purposes specified by the legislation. No changes were made in the recorded value of net assets based on the City's implementation of this pronouncement.

In June 2005, GASB issued *Statement No. 47, Accounting for Termination Benefits* by Employers. This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. As an exception to the general recognition and measurement requirements discussed above, the effects of a termination benefit on an employer's obligations for defined benefit pension or other postemployment benefits in the case of the City will be accounted for and reported under the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as applicable. The City is currently evaluating the impact that this standard will have on the financial statements when adopted. The City will implement *Statement No. 47* in conjunction with *Statement No. 45* during the fiscal year ended June 30, 2008.

NOTE II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City has not implemented the necessary procedures to ensure compliance with the arbitrage rebate rules of Section 148(f) of the Internal Revenue Code of 1986 applicable to the City's outstanding tax-exempt obligations. The City is engaged in discussions with the Internal Revenue Service with a view to establishing such procedures. The potential impact to the City is indeterminable at this time. The Treasurer of the State of Michigan requires that the financial statements of local governments must be submitted to the Treasurer no later than six months after year-end. The Treasurer has the authority when a CAFR is not submitted within the six-month period to withhold the local government's State Revenue Sharing distribution. Accordingly, the Treasurer withheld a portion of the City's December 2007 State Revenue Sharing funds. During FY 2006 the City received a total of \$279,467,063 in State Revenue Sharing. The City has no other material violations of finance related legal and contractual provisions.

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

B. EXCESS OF EXPENDITURES OVER GENERAL FUND APPROPRIATIONS

The legal level of budget control is maintained at the appropriation level, which is more detailed than the budget in the Required Supplemental Information. Listed below are expenditures that exceeded its corresponding appropriation for the year ended June 30, 2006:

| Department Name | Appropriation No. | Appropriation Description | Final Budget | Actual Amount | Actual/Over Appropriation |
|----------------------------|-------------------|---|-----------------------|-----------------------|---------------------------|
| Civic Center | 00008 | Administration | \$ 813,492 | \$ 1,297,755 | \$ (484,263) |
| | 00011 | Cobo Center | 20,798,009 | 23,874,054 | (3,076,045) |
| | | Total Civic Center | \$ 21,611,501 | \$ 25,171,809 | \$ (3,560,308) |
| | | | | | |
| Department of Public Works | 00028 | Administration | \$ 2,946,830 | \$ 3,425,027 | \$ (478,197) |
| | 00035 | Refuse Collection | 11,767,188 | 15,765,290 | (3,998,102) |
| | 00037 | Street Cleaning | 2,513,692 | 6,416,613 | (3,902,921) |
| | 00051 | Vehicle Management | 7,649,735 | 9,715,764 | (2,066,029) |
| | 00052 | Stores and Supplies | 5,488,641 | 5,995,083 | (506,442) |
| | | Department of Public Works | \$ 30,366,086 | \$ 41,317,777 | \$ (10,951,691) |
| | | | | | |
| Finance | 10674 | Office of Targeted Business Development | \$ - | \$ 221,067 | \$ (221,067) |
| | | Total Finance | \$ - | \$ 221,067 | \$ (221,067) |
| | | | | | |
| Fire | 00718 | Fire Fighting Operations | \$ 120,187,081 | \$ 141,899,213 | \$ (21,712,132) |
| | 00760 | Communication and System Support | 3,272,617 | 3,938,289 | (665,672) |
| | | Total Fire | \$ 123,459,698 | \$ 145,837,502 | \$ (22,377,804) |
| | | | | | |
| Health | 00068 | Administration | \$ 5,831,161 | \$ 6,167,321 | \$ (336,160) |
| | 00081 | Plant Operation and Maintenance-Herman Kiefer | 3,249,795 | 4,417,140 | (1,167,345) |
| | | Total Health | \$ 9,080,956 | \$ 10,584,461 | \$ (1,503,505) |
| | | | | | |
| Human Resources | 00107 | Supportive Services | \$ 1,397,199 | \$ 1,658,835 | \$ (261,636) |
| | | | | | |
| Human Rights | 00879 | Contract Compliance | \$ 37,000 | \$ 349,943 | \$ (312,943) |
| | | | | | |
| Law | 00527 | Administration and Operations | \$ 17,537,466 | \$ 22,805,745 | \$ (5,268,279) |
| | | | | | |
| Mayor's Office | 00097 | Neighborhood City Halls | \$ 1,575,451 | \$ 1,916,159 | \$ (340,708) |
| | | | | | |
| Non Departmental | 00664 | City-County Building Rent and Rehabilitation | \$ 38,112 | \$ 252,421 | \$ (214,309) |
| | 10634 | City Vehicles-Lease Purchase | 20,299,500 | 22,986,618 | (2,687,118) |
| | 11519 | Fiscal Stabilization Expense | 7,754,238 | 9,789,142 | (2,034,904) |
| | 11915 | ITS - Unisys Project | 2,631,424 | 5,499,144 | (2,867,720) |
| | | Total Non-Departmental | \$ 30,723,274 | \$ 38,527,325 | \$ (7,804,051) |
| | | | | | |
| Planning & Development | 00015 | Real Estate - City | \$ 3,356,388 | \$ 3,588,123 | \$ (231,735) |
| | | | | | |
| Police | 00111 | Police Commission | \$ 2,792,837 | \$ 2,993,008 | \$ (200,171) |
| | 00112 | Police Executive | 9,312,608 | 10,647,814 | (1,335,206) |
| | 00113 | Internal Control Bureau | 15,959 | 241,840 | (225,881) |
| | 00115 | Human Resources Bureau | 1,375,756 | 5,681,676 | (4,305,920) |
| | 00116 | Eastern Operations Bureau | 103,281,303 | 114,726,810 | (11,445,507) |
| | 00117 | Western Operations Bureau | 88,580,041 | 108,847,728 | (20,267,687) |
| | 00118 | Criminal Investigation Bureau | 56,382,155 | 59,631,921 | (3,249,766) |
| | 00119 | Fiscal Management Bureau | 16,446,001 | 16,713,711 | (267,710) |
| | 10082 | Assistant Chief | 20,156,260 | 23,579,619 | (3,423,359) |
| | 10152 | Casino Municipal Services-Police | 6,324,467 | 9,154,287 | (2,829,820) |
| | 10153 | Domestic Violence Unit | 1,856,719 | 2,524,859 | (668,140) |
| | 11041 | Technical Services Bureau | 25,463,843 | 36,646,542 | (11,182,699) |
| | 11042 | Risk Management Bureau | 16,746,514 | 17,327,897 | (581,383) |
| | 11377 | Civil Rights Integrity Bureau | 4,924 | 469,188 | (464,264) |
| | | Total Police | \$ 348,739,387 | \$ 409,186,900 | \$ (60,447,513) |
| | | | | | |
| Public Lighting | 00128 | Street Lighting | \$ 9,981,969 | \$ 10,254,210 | \$ (272,241) |
| | 00131 | Heat and Power Production | 44,890,494 | 54,047,807 | (9,157,313) |
| | | Total Public Lighting | \$ 54,872,463 | \$ 64,302,017 | \$ (9,429,554) |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
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| Department Name | Appropriation No. | Appropriation Description | Final Budget | Actual Amounts | Actual/Over Appropriation |
|---------------------|-------------------|--|----------------------|----------------------|---------------------------|
| Recreation | 10544 | North District Operations | \$ 222,689 | \$ 670,280 | \$ (447,591) |
| | 10545 | South District Operations | 115,000 | 2,337,639 | (2,222,639) |
| | 10547 | East District Operations | 87,930 | 3,293,744 | (3,205,814) |
| | 11657 | Business Operations & Support Services | 8,579,164 | 10,115,678 | (1,536,514) |
| | 11662 | Building Operations | 2,299,012 | 4,940,211 | (2,641,199) |
| | 11665 | Belle Isle Operations | 2,562,191 | 2,934,043 | (371,852) |
| | | Total Recreation | \$ 13,865,986 | \$ 24,291,595 | \$ (10,425,609) |
| 36th District Court | 05715 | State Transferred Functions | \$ 23,768,442 | \$ 29,201,413 | \$ (5,432,971) |

C. DEFICIT FUND EQUITY

General Fund had a deficit fund balance of \$107,176,088. Local Development Finance Authority (a Component Unit) had a fund deficit of \$49,574,344. The General Fund has a deficit reduction plan, which includes, among other things, changes in how and what level of services are to be provided, perhaps additional subsidies and a review of revenue sources.

NOTE III. DETAILED NOTES ON ALL FUNDS

A. ASSETS

1. Deposits and Investments

a. Primary Government

The following is a complete listing of deposits and investments held by the City at June 30, 2006:

| | Governmental Activities | Business-type Activities | Total |
|--------------|-------------------------|--------------------------|-------------------------|
| Deposits | \$ 168,292,544 | \$ 55,083,327 | \$ 223,375,871 |
| Investments | 272,628,701 | 939,522,959 | 1,212,151,660 |
| Total | \$ 440,921,245 | \$ 994,606,286 | \$ 1,435,527,531 |

The Deposits and Investments of the City at June 30, 2006 are reflected in the financial statements as follows:

| | Governmental Activities | Business-type Activities | Total |
|---------------------------|-------------------------|--------------------------|-------------------------|
| Unrestricted | | | |
| Cash and Cash Equivalents | \$ 74,951,662 | \$ 11,144,759 | \$ 86,096,421 |
| Investments | 273,409,280 | 75,211,671 | 348,620,951 |
| Restricted | | | |
| Cash and Cash Equivalents | 77,854,847 | 73,634,169 | 151,489,016 |
| Investments | 14,705,456 | 834,615,687 | 849,321,143 |
| Total | \$ 440,921,245 | \$ 994,606,286 | \$ 1,435,527,531 |

State laws authorize the City to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
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The City is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools authorized by state law.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the bank may not return the City's deposits. The City does not have a deposit policy for custodial credit risk. As of June 30, 2006, the governmental and business-type activities had deposits of \$217,077,729 that were exposed to custodial credit risk as they were uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. As of June 30, 2006, the City had no investments subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The City policy minimizes interest rate risk by requiring that the Fund attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the City is generally not permitted to directly invest in securities maturing more than 10 years from original date of purchase.

As of June 30, 2006, the City had the following investments and maturities:

| Governmental Activities | Fair Value | Investment Maturities in Years | | |
|-----------------------------------|----------------|--------------------------------|---------------|--------------|
| | | Less Than 1 Year | 1-5 Years | 6-10 Years |
| U.S. Treasury | \$ 10,002,268 | \$ - | \$ 4,978,700 | \$ 5,023,568 |
| U.S. Government Agency Securities | 75,881,198 | 29,926,168 | 42,241,155 | 3,713,875 |
| Repurchase Agreement | 53,017,217 | 53,017,217 | - | - |
| Money Market | 119,022,562 | 119,022,562 | - | - |
| Total Unrestricted | 257,923,245 | 201,965,947 | 47,219,855 | 8,737,443 |
| Money Market | 14,705,456 | 14,705,456 | - | - |
| Total Restricted | 14,705,456 | 14,705,456 | - | - |
| Total Investments | \$ 272,628,701 | \$ 216,671,403 | \$ 47,219,855 | \$ 8,737,443 |

| Business-type Activities | Fair Value | Investment Maturities in Years | | | |
|-----------------------------------|----------------|--------------------------------|----------------|------------|---------------|
| | | Less Than 1 Year | 1-5 Years | 6-10 Years | Over 10 Years |
| Money Market | \$ 73,107,339 | \$ 73,107,339 | \$ - | \$ - | \$ - |
| Total Unrestricted | 73,107,339 | 73,107,339 | - | - | - |
| U.S. Government Agency Securities | 377,021,359 | 64,957,992 | 312,063,367 | - | - |
| Repurchase Agreement | 19,985,604 | 5,008,847 | 14,976,757 | - | - |
| Commercial Paper | 87,265,637 | 87,265,637 | - | - | - |
| Money Market | 382,143,020 | 382,143,020 | - | - | - |
| Total Restricted | 866,415,620 | 539,375,496 | 327,040,124 | - | - |
| Total Investments | \$ 939,522,959 | \$ 612,482,835 | \$ 327,040,124 | \$ - | \$ - |

Credit Risk

The City's investment policy complies with State law which limits its investments in commercial paper, mutual funds and external investment pools, which purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NRSROs) Standard & Poor's (S&P) and Moody's Investor Service (Moody's).

As of June 30, 2006, the City's investments have the following ratings:

Governmental Activities

| | <u>U.S. Treasury</u> | <u>U.S. Government Agency Securities</u> | <u>Repurchase Agreement</u> | <u>Money Market</u> |
|-----------------------|----------------------|--|---------------------------------|-----------------------|
| S&P: AAA Moody's: Aaa | \$ 10,002,268 | \$ 75,881,198 | \$ - | \$ 111,715,339 |
| Not Rated | - | - | 53,017,217 | 22,012,679 |
| Total | <u>\$ 10,002,268</u> | <u>\$ 75,881,198</u> | <u>\$ 53,017,217</u> | <u>\$ 133,728,018</u> |

Business-type Activities

| | <u>U.S. Government Agency Securities</u> | <u>Repurchase Agreement</u> | <u>Commercial Paper</u> | <u>Money Market</u> |
|-----------------------------|--|---------------------------------|-----------------------------|-----------------------|
| S&P: AAA and Moody's Aaa | \$ 377,021,359 | \$ 19,985,604 | \$ - | \$ 305,040,653 |
| S&P: AA- and Moody's Aaa | - | - | - | 4,345,638 |
| S&P: A-1 and Moody's P-1 | - | - | 86,027,000 | - |
| Not Rated | - | - | 1,238,637 | 145,864,068 |
| Total | <u>\$ 377,021,359</u> | <u>\$ 19,985,604</u> | <u>\$ 87,265,637</u> | <u>\$ 455,250,359</u> |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy specifies a number of limitations to minimize concentration of credit risk include prohibiting investing more than 5% of the portfolio in securities (excluding U.S. government, mutual funds, external investment pools, and other pooled investments) of any one issuer. More than 5% of the primary government's investments are in Federal Home Loan Bank, Federal Home Loan Mortgage, and Federal National Mortgage Association. These investments are 18.06%, 5.80% and 11.73%, respectively, of the primary governments investments.

b. Fiduciary Activities

The Fiduciary activities consist of the Pension Funds (General Retirement System and Police and Fire Retirement System) and Other Employee Benefit and Agency Funds. The Pension Funds are authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 314. The System's deposits and investment policies are in accordance with statutory authority.

Pension Funds

State laws authorize the Pension Funds to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The Pension Funds are authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, equity securities and investment pools authorized by state law.

The following is a description of the investments by type and category held by the Pension Funds at June 30, 2006:

| | General Retirement System | Police & Fire Retirement System | Total |
|-------------|------------------------------|------------------------------------|-------------------------|
| Deposits | \$ 14,631,971 | \$ 8,095,552 | \$ 22,727,523 |
| Investments | 3,469,494,373 | 3,982,114,854 | 7,451,609,227 |
| Total | <u>\$ 3,484,126,344</u> | <u>\$ 3,990,210,406</u> | <u>\$ 7,474,336,750</u> |

Pension Funds

| Investment | General Retirement System | Police & Fire Retirement System |
|---|------------------------------|------------------------------------|
| Short-Term Investments | \$ 57,199,392 | \$ 85,549,655 |
| Stocks | 1,480,486,746 | 2,261,405,932 |
| Commingled Equity Funds | 791,570,177 | - |
| Bonds | 360,671,578 | 796,295,727 |
| Mortgage-Backed Securities | 82,017,278 | 153,297,504 |
| Real Estate Investment Trusts Held by Custodian | - | 60,374,430 |
| Pooled Investments | 162,121,174 | 339,081,044 |
| Equity Interest in Real Estate | 89,256,803 | 107,260,311 |
| Private Placements | 339,900,994 | 45,983,046 |
| Mortgage and Construction Loans | 106,270,231 | 132,867,205 |
| Total | <u>\$ 3,469,494,373</u> | <u>\$ 3,982,114,854</u> |

Custodial Credit Risk of Bank Deposits

Custodial credit risk of bank deposits is the risk that in the event of bank failure, the bank may not return the Pension Funds' deposits. The Pension Funds do not have a deposit policy for custodial credit risk. At June 30, 2006, the General Retirement System and Police and Fire Retirement System had deposits of \$1,182,296 and \$8,031,837, respectively, that were exposed to custodial credit risk as they were uninsured and uncollateralized. The Pension Funds believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Pension Funds evaluate each financial institution with which they deposit funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk of investments is the risk that, in the event of failure of the counterparty, the Pension Funds will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension Funds do not have a policy for custodial credit risk. As of June 30, 2006, the Pension Funds had no investments subject to custodial credit risk of investments.

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The pension funds' investment policy does not restrict investment maturities.

As of June 30, 2006, the Pension Funds had the following investments and maturities:

| <u>General Retirement System</u> | | <u>Investment Maturities in Years</u> | | | | |
|-------------------------------------|-----------------------|---------------------------------------|-----------------------|-----------------------|-----------------------|----------------------|
| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less Than 1</u> | | | | <u>Over 10 Years</u> |
| | | <u>Year</u> | <u>1-5 Years</u> | <u>6-10 Years</u> | | |
| U.S. Government | \$ 83,182,932 | \$ 10,956,831 | \$ 18,142,385 | \$ 24,412,890 | \$ 29,670,826 | |
| Mortgage Backed | 78,218,328 | 2,469 | 11,561,068 | 6,330,101 | 60,324,690 | |
| Collateralized Mortgage Obligations | 20,109,010 | - | 659,708 | 1,869,480 | 17,579,822 | |
| Corporate | 196,687,355 | 10,468,105 | 75,722,413 | 94,146,484 | 16,350,353 | |
| Yankee Bonds | 3,565,397 | - | 819,340 | 2,103,776 | 642,281 | |
| Non-U.S. Fixed Income | 68,050,764 | 5,406,571 | 36,664,624 | 24,280,017 | 1,699,552 | |
| Repurchase Agreements | 626,097 | 626,097 | - | - | - | |
| Agencies | 4,049,694 | 4,049,694 | - | - | - | |
| Mortgages | 59,991,582 | 24,401,997 | 21,589,585 | - | 14,000,000 | |
| Total | <u>\$ 514,481,159</u> | <u>\$ 55,911,764</u> | <u>\$ 165,159,123</u> | <u>\$ 153,142,748</u> | <u>\$ 140,267,524</u> | |

| <u>Police and Fire Retirement System</u> | | <u>Investment Maturities in Years</u> | | | | |
|--|-----------------------|---------------------------------------|-----------------------|-----------------------|-----------------------|----------------------|
| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less Than 1 Year</u> | | | | <u>Over 10 Years</u> |
| | | <u>Year</u> | <u>1-5 Years</u> | <u>6-10 Years</u> | | |
| U.S. Government | \$ 149,684,758 | \$ 21,098,831 | \$ 71,456,146 | \$ 42,993,941 | \$ 14,135,840 | |
| Mortgage Backed | 123,536,072 | - | 167,071 | 5,620,096 | 117,748,905 | |
| Collateralized Mortgage Obligation | 39,483,969 | - | - | - | 39,483,969 | |
| Corporate | 593,862,341 | 36,336,776 | 238,078,003 | 226,938,973 | 92,508,589 | |
| Yankee Bonds | 8,387,197 | - | 4,529,609 | 2,056,152 | 1,801,436 | |
| Non-U.S. Fixed Income | 31,355,818 | - | 9,564,188 | 18,301,830 | 3,489,800 | |
| Convertible Bonds | 18,533,250 | - | 1,491,149 | 315,990 | 16,726,111 | |
| Treasury Bills | 133,060 | 133,060 | - | - | - | |
| Mortgages | 12,222,336 | - | 3,000,000 | - | 9,222,336 | |
| Total | <u>\$ 977,198,801</u> | <u>\$ 57,568,667</u> | <u>\$ 328,286,166</u> | <u>\$ 296,226,982</u> | <u>\$ 295,116,986</u> | |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The system has no investment policy that would further limit its investment choices.

As of June 30, 2006, the Pension Funds' investments have the following ratings (other than that guaranteed by the U.S. government in \$000):

| General Retirement System | Investment Type and Fair Value | | | | | | | | |
|-------------------------------------|---------------------------------------|-----------------|------------------|------------------|------------------|------------------|------------------------|---------------|-------------------|
| | AAA | AA | A | BBB | BB | B | CCC & Below | A-1 | Not Rated |
| U.S. Government | \$ 60,929 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 47 | \$ 6,872 |
| Mortgage Backed | 8,886 | 57 | - | - | 142 | - | - | - | 69,134 |
| Collateralized Mortgage Obligations | 6,686 | 498 | - | - | - | - | - | - | 12,925 |
| Corporate | 6,826 | 2,700 | 10,232 | 28,404 | 33,583 | 85,659 | 17,786 | 107 | 11,390 |
| Yankee Bonds | - | - | - | 1,370 | 614 | 1,268 | 313 | - | - |
| Non-U.S. Fixed Income | 39,603 | 1,190 | 7,426 | 540 | 7,502 | 5,039 | 959 | - | 5,791 |
| Agencies | 4,050 | - | - | - | - | - | - | - | - |
| Repurchase Agreements | - | - | - | - | - | - | - | 626 | - |
| Mortgages | - | - | - | - | - | - | - | - | 59,992 |
| Total | \$ 126,980 | \$ 4,445 | \$ 17,658 | \$ 30,314 | \$ 41,841 | \$ 91,966 | \$ 19,058 | \$ 780 | \$ 166,104 |

| Police and Fire Retirement System | Investment Type and Fair Value | | | | | | | | |
|--|---------------------------------------|------------------|-------------------|-------------------|------------------|-------------------|------------------------|---------------|-------------------|
| | AAA | AA | A | BBB | BB | B | CCC & Below | A-1 | Not Rated |
| U.S. Government | \$ 130,767 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Mortgage Backed | 8,943 | - | - | - | - | - | - | - | 114,593 |
| Collateralized Mortgage Obligations | 9,989 | - | - | - | - | - | - | - | - |
| Obligations | - | - | - | - | - | - | - | - | 29,495 |
| Corporate | 11,168 | 31,016 | 128,161 | 129,670 | 73,782 | 169,702 | 29,184 | - | 37,171 |
| Yankee Bonds | - | - | - | 5,903 | 901 | 1,465 | - | - | 119 |
| Non-U.S. Fixed Income | - | - | 11,938 | 2,651 | 5,498 | 9,497 | 1,110 | - | 662 |
| Convertible Bonds | 693 | - | 1,787 | 4,116 | 4,197 | 2,989 | 541 | - | 1,131 |
| Commercial Paper | - | - | - | - | - | - | - | 696 | - |
| Mortgages | - | - | - | - | - | - | - | - | 12,222 |
| Total | \$ 161,560 | \$ 31,016 | \$ 141,886 | \$ 142,340 | \$ 84,378 | \$ 183,653 | \$ 30,835 | \$ 696 | \$ 195,393 |

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce U.S. dollar value because of changes in foreign currency exchange rates. State law and the city's investment policy do not permit investments in foreign currency. However, the General Retirement System and Police and Firemen Retirement System (Pension Funds) do not restrict the amount of investments in foreign currency. Their foreign currency risk investments are as follows (in \$000):

| Foreign Currency Risk | <u>General Retirement System</u> | | | | <u>Police and Firemen Retirement System</u> | | | |
|------------------------|----------------------------------|-------------------|--|------------------|---|--|-----------------|--|
| | Fixed Income | Equity | Forward Contracts Unrealized Gain (Loss) | Cash | Equity | Forward Contracts Unrealized Gain (Loss) | Cash | |
| Australian Dollar | \$ 7,815 | \$ 11,069 | \$ (3,595) | \$ 1,005 | \$ 10,730 | \$ 5,108 | \$ 202 | |
| Brazilian Real | 2,128 | 188 | - | - | - | - | - | |
| British Pound Sterling | 3,008 | 59,926 | (11,987) | 346 | 96,504 | (19,680) | 832 | |
| Canadian Dollar | 8,732 | 4,433 | - | 97 | 2,627 | 15,612 | 29 | |
| Cyprus Pound | - | 1,129 | - | - | - | - | - | |
| Czech Koruna | - | 2,809 | (1,099) | 177 | - | - | - | |
| Danish Krone | - | 2,069 | - | 40 | 1,493 | - | 20 | |
| Euro Currency | 8,357 | 136,529 | (11,361) | 8,822 | 171,848 | 968 | 2,284 | |
| Hong Kong Dollar | - | 7,575 | (1,418) | 486 | 6,091 | (2,052) | 52 | |
| Hungarian Forint | - | 3,071 | - | (1,689) | - | - | - | |
| Indonesian Rupiah | 1,546 | 220 | - | 33 | - | - | - | |
| Japanese Yen | - | 78,021 | 19,635 | 2,717 | 118,226 | (20,890) | 5,805 | |
| Kroon | - | 96 | - | - | - | - | - | |
| Malaysian Ringgit | 1,498 | - | - | - | 561 | - | - | |
| Mexican Nuevo Peso | 3,348 | 974 | - | 14 | - | - | - | |
| New Taiwan Dollar | - | 633 | - | 163 | 534 | - | - | |
| New Zealand Dollar | 1,199 | 234 | (2,119) | - | 3,614 | - | 1 | |
| Norwegian Krone | - | 8,255 | - | 778 | 9,148 | - | 59 | |
| New Turkish Lira | - | 2,068 | (444) | 7 | - | - | - | |
| Philippines Peso | - | - | - | - | - | - | - | |
| Polish Zloty | 5,177 | 9,519 | (982) | (31) | - | - | - | |
| Renminbi Yuan | - | 1,230 | - | - | 509 | - | - | |
| Russian New Ruble | - | 3,126 | - | - | - | - | - | |
| Singapore Dollar | 5,361 | 2,294 | - | 156 | 3,148 | - | 8 | |
| South African Rand | 271 | - | - | - | - | - | - | |
| South Korean Won | - | 2,686 | - | (75) | 2,141 | - | (107) | |
| Swedish Krona | 5,354 | 10,689 | 386 | 104 | 17,977 | 553 | (449) | |
| Swiss Franc | - | 30,079 | - | 490 | 35,912 | - | 646 | |
| Thai Baht | 770 | 349 | 1,123 | - | - | - | - | |
| Totals | \$ 54,564 | \$ 379,271 | \$ (11,861) | \$ 13,640 | \$ 481,063 | \$ (20,381) | \$ 9,382 | |

Securities Lending

As permitted by State statutes and under the provisions of a securities lending authorization agreement, the Pension Funds lend securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Pension Funds custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial banks do not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities.

The Pension Funds did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The General Retirement System had lent no securities to broker-dealers or banks.

The Police and Fire Retirement System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral of other lenders in an investment pool. The average duration of this investment pool as of June 30, 2006 was 26 and 30 days for the General and the Police and Fire Retirement Systems, respectively. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2006, the Pension Funds had no credit risk exposure to borrowers. The collateral held and the fair market value of the underlying securities on loan for the General Retirement System as of June 30, 2006 was \$548,294,329 and \$535,930,060, respectively. The collateral held and the fair market value of the underlying securities on loan for the Police and Fire Retirement System as of June 30, 2006 was \$1,028,069,856 and \$1,006,273,998, respectively.

Other Employee Benefit and Agency Funds

State laws authorize the City to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The City is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools authorized by State law.

Deposits and investments in the Other Employee Benefit Funds and Agency Funds (Other Funds) at June 30, 2006 are reflected in the financial statements as follows:

| | Other Employee Benefit Funds | Agency Funds | Total |
|---------------------------|---|----------------------|----------------------|
| Unrestricted | | | |
| Cash and Cash Equivalents | \$ 768,382 | \$ 2,620,612 | \$ 3,388,994 |
| Investments | 41,790,654 | 11,112,960 | 52,903,614 |
| Total | <u>\$ 42,559,036</u> | <u>\$ 13,733,572</u> | <u>\$ 56,292,608</u> |

Custodial Credit Risk of Bank Deposits

Custodial credit risk of bank deposits is the risk that in the event of bank failure, the bank may not return the Other Employee Benefit and Agency deposits. The City does not have a deposit policy for custodial credit risk. At June 30, 2006, the Other Funds had deposits of \$3,893,605 that were exposed to custodial credit risk as they were uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial credit risk of bank investments is the risk that, in the event of failure of the counterparty, the Other Employee Benefit and Agency Funds will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. As of June 30, 2006, the Other Employee Benefit and Agency Funds had no investments subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The City's policy minimizes interest rate risk by requiring that the Fund attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the City is generally not permitted to directly invest in securities maturing more than 10 years from original date of purchase.

As of June 30, 2006, the Other Funds had the following investments and maturities:

| Other Employee Benefit/Agency Funds | Investment Maturities in Years | | |
|-------------------------------------|--------------------------------|------------------|------------|
| | Fair Value | Less Than 1 Year | 1-5 Years |
| Money Market | \$ 27,689,285 | \$ 27,689,285 | \$ - |
| Mutual Funds | 19,859,581 | 19,859,581 | - |
| U.S. Government Agency Securities | 15,372 | 15,372 | - |
| Equity | 5,339,376 | 4,707,670 | 631,706 |
| Total Unrestricted | 52,903,614 | 52,271,908 | 631,706 |
| Total Investments | \$ 52,903,614 | \$ 52,271,908 | \$ 631,706 |

Credit Risk

The City's investment policy complies with state law that limits its investments in commercial paper, mutual funds and external investment pools which purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical rating organizations (NRSROs).

As of June 30, 2006, the Other Fiduciary Funds' investments have the credit quality ratings of debt securities (other than that guaranteed by the U.S. government) by S&P or Moody's as follows:

| Other Fiduciary Funds | U.S. Treasury | Money Market | Mutual Funds |
|-----------------------|---------------|---------------|---------------|
| S&P AAAm | \$ 15,372 | \$ 9,675,475 | \$ - |
| S&P AAA | - | 18,013,810 | - |
| S&P AA+ | - | - | - |
| S&P AA | - | - | - |
| S&P AA- | - | - | - |
| S&P A+ | - | - | - |
| S&P A | - | - | - |
| S&P A- | - | - | - |
| S&P BBB+ | - | - | - |
| S&P BBB | - | - | - |
| S&P BBB- | - | - | - |
| S&P BB+ | - | - | - |
| S&P BB | - | - | - |
| S&P BB- | - | - | - |
| S&P B+ | - | - | - |
| S&P B | - | - | - |
| S&P B- | - | - | - |
| Moody's AA2 | - | - | - |
| Moody's A1 | - | - | - |
| Moody's A3 | - | - | - |
| Moody's BAA2 | - | - | - |
| Moody's BAA3 | - | - | - |
| Moody's BA1 | - | - | - |
| Moody's BA2 | - | - | - |
| Moody's BA3 | - | - | - |
| Moody's B1 | - | - | - |
| Moody's B2 | - | - | - |
| Moody's B3 | - | - | - |
| Not Rated | - | - | 19,859,581 |
| Total Investments | \$ 15,372 | \$ 27,689,285 | \$ 19,859,581 |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy specifies a number of limitations to minimize concentration of credit risk include prohibiting investing more than 5% of the portfolio in securities (excluding U.S. government, mutual funds, external investment pools, and other pooled investments) of any one issuer. There were no investments of more than 5% of the total of Other Fiduciary Funds.

c. Component Units

Greater Detroit Resource Recovery Authority (GDRRA)

Investments

In accordance with GASB Statement No. 31 investments with maturities less than one year are stated at amortized cost, and investments with maturities greater than one year are stated at fair market value (quoted market price or management's best available estimate thereof). For purposes of reporting cash flows, cash equivalents are investments with an original maturity of less than one month. Investments with an original maturity of less than one year and greater than one month when purchased are classified as investments, current, while those investments with a maturity greater than one year when purchased are classified as investments, noncurrent, in the accompanying balance sheets.

The following is a complete listing of the GDRRA's deposits and investments held by the City at June 30, 2006:

| <u>GDRRA</u> | |
|---------------------|------------------------------|
| Deposits | \$ 3,680,134 |
| Investments | 137,783,206 |
| Total | <u>\$ 141,463,340</u> |

The Deposits and Investments of the (GDRRA) at June 30, 2006 are reflected in the financial statements as follows:

| <u>GDRRA</u> | |
|----------------------------|------------------------------|
| Unrestricted Investments | \$ - |
| Restricted | |
| Cash | 3,680,134 |
| Investments-current | 75,664,903 |
| Investments-noncurrent | 62,118,303 |
| Total Cash and Investments | <u>\$ 141,463,340</u> |

As of June 30, 2006, GDRRA had accrued interest of \$43,771.

State law authorizes the City to make deposits in the account of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

The City is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investments quality, repurchase agreements, banker's acceptances, mutual funds of certain investment quality, and investment pools as authorized by State law.

Custodial Credit Risk of Bank Deposits

Custodial credit risk of bank deposits is the risk that in the event of bank failure, the bank may not return the GDRRA's deposits. As of June 30, 2006, the GDRRA had no bank deposits subject to the custodial credit risk of bank deposits.

Custodial Credit Risk of Investments

Custodial credit risk of investments is the risk that in the event of failure of the counterparty, the GDRRA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2006, the GDRRA had no investments subject to the custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The City's policy minimizes interest rate risk by requiring that the GDRRA attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the City generally does not directly invest in securities maturing more than 10 years from the original date of purchase.

| GDRRA | Investment Maturities in Years | | | | |
|-------------------------------------|---------------------------------------|-------------------------|----------------------|-------------------|----------------------|
| | Fair Value | Less Than 1 Year | 1-5 Years | 6-10 Years | Over 10 Years |
| Restricted Investments | | | | | |
| Treasury Obligation Funds | \$ 3,894,024 | \$ 3,894,024 | \$ - | \$ - | \$ - |
| U.S. Treasury | 21,723,535 | 21,723,535 | - | - | - |
| U.S. Government Agency Securities | 64,414,140 | 2,295,838 | 62,118,302 | - | - |
| Repurchase Agreements | 47,751,507 | 47,751,507 | - | - | - |
| Total Restricted Investments | \$ 137,783,206 | \$ 75,664,904 | \$ 62,118,302 | \$ - | \$ - |

Credit Risk

The City of Detroit's investment policy complies with State law. The City limits its investments in commercial paper, mutual funds, and external investment pools that purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical ratings organizations (NRSROs).

As of June 30, 2006, the Authority had the following investments, maturities, and credit quality ratings of debt securities:

| GDRRA | | | |
|---------------------------------|-----------------------|---------------|----------------------------|
| Investments | Value | Rating | Rating Organization |
| Treasury Obligation Funds | \$ 550,401 | AAAm | Standard & Poor's |
| Treasury Obligation Funds | 3,343,623 | AAAm | Standard & Poor's |
| US Treasury | 21,723,535 | Not rated | N/A |
| US Government Agency Securities | 64,414,140 | Not rated | N/A |
| Repurchase Agreements | 47,751,507 | AAAm | Moody's |
| Total | \$ 137,783,206 | | |

The investments shown as U.S. Treasury and U.S. Government Agency Securities are backed by the full faith and credit of the United States Government.

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

- 2. Other Receivables:** Other receivables in the statement of net assets for governmental activities are shown in the aggregate. The following details the Other Receivables balances at June 30, 2006:

| | General | Other Governmental | Total |
|--|----------------------|---------------------------|----------------------|
| Due from Fiduciary Funds | \$ 3,807,548 | \$ - | \$ 3,807,548 |
| Estimated Withheld Income Tax Receivable | 25,736,476 | - | 25,736,476 |
| Utility Users Tax | 3,950,640 | - | 3,950,640 |
| Property Taxes | 66,956,457 | 23,257,015 | 90,213,472 |
| Land Contracts Receivable | 2,238,916 | - | 2,238,916 |
| Income Taxes | 37,573,961 | - | 37,573,961 |
| Special Assessments | 41,475,862 | 342,173 | 41,818,035 |
| Interest and Penalties | 6,555,000 | 2,275,000 | 8,830,000 |
| Trade Receivables | 161,233,589 | 1,823,030 | 163,056,619 |
| Allowance for Doubtful Accounts | (313,956,262) | (26,738,561) | (340,694,823) |
| Total | <u>\$ 35,572,187</u> | <u>\$ 958,657</u> | <u>\$ 36,530,844</u> |

- 3. Due from/to Other Governmental Agencies:** Due from/to other governmental agencies consists primarily of sales and charges for services to/from the County, the State, and the Federal Government.
- 4. Interfund Receivables and Payables:** During the course of operations, numerous transactions occur between the City funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "due from other funds" and "due to other funds" on the balance sheet and statement of net assets and will be settled within one year.

Interfund receivables and payables at June 30, 2006 are as follows:

| Due To: | Due From | | | | | | | | Total |
|------------------------------|-----------------------|------------------------------|----------------------|----------------------|----------------------|-------------------------|----------------------------|---------------------|-----------------------|
| | General Fund | Non-Major Governmental Funds | Sewage Disposal Fund | Transportation Fund | Water Fund | Automobile Parking Fund | Non-Major Proprietary Fund | Fiduciary Funds | |
| General Fund | \$ - | \$ 18,546,823 | \$ 5,855,116 | \$ 8,924,747 | \$ 6,072,545 | \$ 908,520 | \$ 96,938 | \$ 3,807,548 | \$ 44,212,237 |
| Non-Major Governmental Funds | 4,102,238 | 5,900,540 | - | 179,378 | - | 27,333 | 10,829 | - | 10,220,318 |
| Sewage Disposal Fund | 63,580 | - | - | - | 58,276,875 | - | - | - | 58,340,455 |
| Transportation Fund | 1,087,187 | 140,893 | - | - | - | - | - | - | 1,228,080 |
| Water Fund | 1,162,838 | - | 61,742,952 | - | - | - | - | - | 62,905,790 |
| Automobile Parking Fund | 1,496,082 | - | - | - | - | - | - | - | 1,496,082 |
| Non-Major Proprietary Fund | 618,673 | - | - | - | - | - | - | - | 618,673 |
| Fiduciary Funds (1) | 97,829,853 | - | 411,500 | 8,317,405 | 506,181 | - | - | - | 107,064,939 |
| Total | <u>\$ 106,360,451</u> | <u>\$ 24,588,256</u> | <u>\$ 68,009,568</u> | <u>\$ 17,421,530</u> | <u>\$ 64,855,601</u> | <u>\$ 935,853</u> | <u>\$ 107,767</u> | <u>\$ 3,807,548</u> | <u>\$ 286,086,574</u> |

- (1) This Interfund payable primarily represents employer's contributions that are due to the retirement systems at year-end.

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

- 5. Advances:** Advances represent interfund receivables and payables that will not be paid within one year. Advances between funds at June 30, 2006, are as follows:

| <u>Receivable Fund</u> | | <u>Amount</u> | <u>Payable Fund</u> | | <u>Amount</u> |
|------------------------|----|-------------------|--|----|-------------------|
| General Fund | \$ | 11,820,680 | Detroit Workforce Development Fund (Non-Major Governmental Fund) | \$ | 145,674 (2) |
| | | | Capital Projects Fund (Non-Major Governmental Fund) | | 850,000 (2) |
| | | | Automobile Parking Fund (Proprietary Fund) | | 10,825,006 (2) |
| Total | \$ | <u>11,820,680</u> | Total | \$ | <u>11,820,680</u> |

(2) These Advances primarily represents amounts used for operating expenditures.

- 6. Transfers:** During the course of the fiscal year transactions occur between the City's funds for operating subsidies. Related interfund receipts and disbursements are classified as "transfers in" and "transfers out" on the Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balance/Net assets. The transfers are routine and consistent with the activities of the funds. Transfers between funds at June 30, 2006, are as follows:

| | | <u>Transfers In</u> | | | | | |
|------------------------------|----|--|--|-------------------------------------|----------------------------|----------------------|-----------------------|
| | | <u>General Retirement System Service Corporation</u> | <u>Police & Fire Retirement System Service Corporation</u> | <u>Non-Major Governmental Funds</u> | <u>Transportation Fund</u> | | <u>Total</u> |
| <u>Transfers Out</u> | | | | | | | |
| General Fund | \$ | - | \$ 8,018,381 | \$ 11,063,568 | \$ 43,081,151 | \$ 77,252,604 | \$ 139,415,704 |
| Sewage Disposal Fund | | - | 163,835 | - | - | - | 163,835 |
| Water Fund | | - | 2,657,585 | - | - | - | 2,657,585 |
| Transportation Fund | | - | 1,738,850 | - | - | - | 1,738,850 |
| Automobile Parking Fund | | 37,464,702 | - | - | - | - | 37,464,702 |
| Non-Major Governmental Funds | | 12,780,909 | - | - | 12,830,499 | - | 25,611,408 |
| Total | \$ | <u>50,245,611</u> | \$ <u>12,578,651</u> | \$ <u>11,063,568</u> | \$ <u>55,911,650</u> | \$ <u>77,252,604</u> | \$ <u>207,052,084</u> |

The General Fund transferred \$139.4 million to other funds. The largest transfers from the General Fund was made to the Transportation Fund for \$77.3 million to maintain bus operations and \$39.6 million to the Debt Service for principal and interest payments. The General Fund also transferred a combined \$19.1 million to City's two Retirement System Service Corporations, and \$3.4 million to the Human Services Fund for their operations.

The Non-Major Governmental Funds transferred \$25.6 million to other funds. Included in this amount is the Major and Local Street Fund, which transferred \$9.8 million to the General Fund for street construction costs. The Construction Code Fund transferred \$1.8 million and Capital Projects Fund transferred \$1.2 million to the General Fund for amounts these funds owe the General Fund respectively. The Block Grants Fund transferred \$2.8 million to the Debt Service Fund. The Automobile Parking Fund transferred \$37.5 million primarily from the sale of City parking structures.

7. Capital Asset Activity for the Year Ended June 30, 2006:

| | Primary Government | | | Ending Balance |
|---------------------------------|----------------------|----------------|------------------|-------------------|
| | Beginning Balance | Additions | Retirements | |
| Governmental Activities: | | | | |
| Non-Depreciable Assets: | | | | |
| Land | \$ 383,013,627 | \$ 36,378,378 | \$ (1,927,544) | \$ 417,464,461 |
| Works of Arts | 29,788,133 | - | - | 29,788,133 |
| Construction in Progress | 206,997,346 | 82,737,427 | (189,601,689) | 100,133,084 |
| Total Non-Depreciable Assets | 619,799,106 | 119,115,805 | (191,529,233) | 547,385,678 |
| Depreciable Assets: | | | | |
| Buildings and Improvements | 801,375,576 | 133,740,757 | - | 935,116,333 |
| Machinery and Equipment | 407,730,158 | 82,826,345 | (7,733,349) | 482,823,154 |
| Infrastructure | 827,401,177 | 31,015,992 | - | 858,417,169 |
| Total Depreciable Assets | 2,036,506,911 | 247,583,094 | (7,733,349) | 2,276,356,656 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 294,947,466 | 23,033,805 | - | 317,981,271 |
| Machinery and Equipment | 315,955,797 | 28,591,271 | (7,424,494) | 337,122,574 |
| Infrastructure | 642,359,919 | 16,253,849 | - | 658,613,768 |
| Total Accumulated Depreciation | 1,253,263,182 | 67,878,925 | (7,424,494) | 1,313,717,613 |
| Governmental Activities | | | | |
| Capital Assets, Net | \$ 1,403,042,835 | \$ 298,819,974 | \$ (191,838,088) | \$ 1,510,024,721 |

Depreciation Expense was charged to the Governmental Activities as follows:

| | |
|------------------------------|---------------|
| Public Protection | \$ 15,289,584 |
| Health | 403,267 |
| Education | 243,741 |
| Recreation and Culture | 14,567,108 |
| Economic Development | 7,420,707 |
| Housing Supply and Condition | 216,944 |
| Physical Environment | 25,170,297 |
| Development and Management | 4,567,277 |
| Total | \$ 67,878,925 |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

Business-type Activities:

| | Primary Government | | | |
|-----------------------------------|------------------------------|------------------|--------------------|---------------------------|
| | Beginning Balance | Additions | Retirements | Ending Balance |
| Major Funds: | | | | |
| Sewage Disposal Fund: | | | | |
| Non-Depreciable Assets: | | | | |
| Land and Land Rights | \$ 13,876,751 | \$ - | \$ (41,794) | \$ 13,834,957 |
| Construction in Progress | 1,219,986,063 | 284,368,969 | (1,193,852,634) | 310,502,398 |
| Total Non-Depreciable Assets | 1,233,862,814 | 284,368,969 | (1,193,894,428) | 324,337,355 |
| Depreciable Assets: | | | | |
| Buildings and Structures | 1,143,914,922 | 964,622,796 | (405,536,576) | 1,703,001,142 |
| Sewer Lines | 542,769,689 | 106,574,102 | (174,654,520) | 474,689,271 |
| Machinery, Equipment and Fixtures | 708,031,859 | 910,940,702 | (233,901,249) | 1,385,071,312 |
| Total Depreciable Assets | 2,394,716,470 | 1,982,137,600 | (814,092,345) | 3,562,761,725 |
| Total Capital Assets | 3,628,579,284 | 2,266,506,569 | (2,007,986,773) | 3,887,099,080 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Structures | 251,829,952 | 43,843,995 | - | 295,673,947 |
| Sewer Lines | 101,913,304 | 1,665,445 | - | 103,578,749 |
| Machinery, Equipment and Fixtures | 327,384,459 | 24,441,576 | (105,887) | 351,720,148 |
| Total Accumulated Depreciation | 681,127,715 | 69,951,016 | (105,887) | 750,972,844 |
| Net Capital Assets | \$ 2,947,451,569 | \$ 2,196,555,553 | \$ (2,007,880,886) | \$ 3,136,126,236 |
| Transportation Fund: | | | | |
| Non-Depreciable Assets: | | | | |
| Land and Land Rights | \$ 4,114,574 | \$ 3,463,888 | \$ - | \$ 7,578,462 |
| Construction in Progress | 5,050,781 | 2,247,137 | (2,005,674) | 5,292,244 |
| Total Non-Depreciable Assets | 9,165,355 | 5,711,025 | (2,005,674) | 12,870,706 |
| Depreciable Assets: | | | | |
| Buildings and Structures | 69,910,255 | 53,052 | (3,318,257) | 66,645,050 |
| Machinery, Equipment and Fixtures | 50,730,624 | 873,407 | (5,573,738) | 46,030,293 |
| Vehicle and Buses | 166,837,062 | 6,167,965 | (7,859,410) | 165,145,617 |
| Total Depreciable Assets | 287,477,941 | 7,094,424 | (16,751,405) | 277,820,960 |
| Total Capital Assets | 296,643,296 | 12,805,449 | (18,757,079) | 290,691,666 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Structures | 47,141,913 | 1,414,523 | (2,809,808) | 45,746,628 |
| Machinery, Equipment and Fixtures | 32,253,039 | 3,385,964 | (5,349,515) | 30,289,488 |
| Vehicle and Buses | 64,450,108 | 13,680,847 | (6,421,784) | 71,709,171 |
| Total Accumulated Depreciation | 143,845,060 | 18,481,334 | (14,581,107) | 147,745,287 |
| Net Capital Assets | \$ 152,798,236 | \$ (5,675,885) | \$ (4,175,972) | \$ 142,946,379 |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

| | Primary Government | | | |
|-----------------------------------|------------------------------|------------------|--------------------|---------------------------|
| | Beginning Balance | Additions | Retirements | Ending Balance |
| Water Fund: | | | | |
| Non-Depreciable Assets: | | | | |
| Land and Land Rights | \$ 6,527,438 | \$ 1,870 | \$ - | \$ 6,529,308 |
| Construction in Progress | 418,027,160 | 132,675,453 | (409,887,457) | 140,815,156 |
| Total Non-Depreciable Assets | 424,554,598 | 132,677,323 | (409,887,457) | 147,344,464 |
| Depreciable Assets: | | | | |
| Land Improvements | 103,323,777 | 2,823,010 | (61,475) | 106,085,312 |
| Buildings and Structures | 707,846,651 | 477,053,519 | (359,250,642) | 825,649,528 |
| Water Lines | 714,856,603 | 151,730,672 | (102,998,885) | 763,588,390 |
| Machinery, Equipment and Fixtures | 630,635,010 | 446,020,895 | (212,197,939) | 864,457,966 |
| Total Depreciable Assets | 2,156,662,041 | 1,077,628,096 | (674,508,941) | 2,559,781,196 |
| Total Capital Assets | 2,581,216,639 | 1,210,305,419 | (1,084,396,398) | 2,707,125,660 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 57,509,470 | 2,008,551 | - | 59,518,021 |
| Buildings and Structures | 179,988,320 | 15,839,571 | - | 195,827,891 |
| Water Lines | 255,476,747 | 9,512,957 | (370,396) | 264,619,308 |
| Machinery, Equipment and Fixtures | 195,888,827 | 27,267,021 | (52,788) | 223,103,060 |
| Total Accumulated Depreciation | 688,863,364 | 54,628,100 | (423,184) | 743,068,280 |
| Net Capital Assets | \$ 1,892,353,275 | \$ 1,155,677,319 | \$ (1,083,973,214) | \$ 1,964,057,380 |
| Automobile Parking Fund: | | | | |
| Non-Depreciable Assets: | | | | |
| Land and Land Rights | \$ 7,014,113 | \$ - | \$ (2,046,800) | \$ 4,967,313 |
| Construction in Progress | 504,183 | - | (474,549) | 29,634 |
| Total Non-Depreciable Assets | 7,518,296 | - | (2,521,349) | 4,996,947 |
| Depreciable Assets: | | | | |
| Land Improvements | 214,908 | - | - | 214,908 |
| Buildings and Structures | 207,288,512 | 3,259,408 | (18,386,717) | 192,161,203 |
| Machinery, Equipment and Fixtures | 2,391,206 | 276,399 | - | 2,667,605 |
| Total Depreciable Assets | 209,894,626 | 3,535,807 | (18,386,717) | 195,043,716 |
| Total Capital Assets | 217,412,922 | 3,535,807 | (20,908,066) | 200,040,663 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 177,113 | - | (659) | 176,454 |
| Buildings and Structures | 112,082,105 | 5,113,752 | (13,039,073) | 104,156,784 |
| Machinery, Equipment and Fixtures | 1,928,585 | 159,675 | - | 2,088,260 |
| Total Accumulated Depreciation | 114,187,803 | 5,273,427 | (13,039,732) | 106,421,498 |
| Net Capital Assets | \$ 103,225,119 | \$ (1,737,620) | \$ (7,868,334) | \$ 93,619,165 |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> |
|-----------------------------------|------------------------------|---------------------|--------------------|---------------------------|
| Non-Major Fund: | | | | |
| Non-Depreciable Assets: | | | | |
| Land and Land Rights | \$ 5,169,374 | \$ - | \$ - | \$ 5,169,374 |
| Total Non-Depreciable Assets | <u>5,169,374</u> | <u>-</u> | <u>-</u> | <u>5,169,374</u> |
| Depreciable Assets: | | | | |
| Land Improvements | 8,020,718 | - | - | 8,020,718 |
| Buildings and Structures | 5,853,773 | - | - | 5,853,773 |
| Machinery, Equipment and Fixtures | 1,770,642 | 7,628 | (7,500) | 1,770,770 |
| Vehicle and Buses | 1,576,778 | - | - | 1,576,778 |
| Total Depreciable Assets | <u>17,221,911</u> | <u>7,628</u> | <u>(7,500)</u> | <u>17,222,039</u> |
| Total Capital Assets | <u>22,391,285</u> | <u>7,628</u> | <u>(7,500)</u> | <u>22,391,413</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | 6,125,509 | 401,036 | - | 6,526,545 |
| Buildings and Structures | 4,121,603 | 63,299 | - | 4,184,902 |
| Machinery, Equipment and Fixtures | 1,518,465 | 75,404 | (7,500) | 1,586,369 |
| Vehicle and Buses | 732,273 | 98,781 | - | 831,054 |
| Total Accumulated Depreciation | <u>12,497,850</u> | <u>638,520</u> | <u>(7,500)</u> | <u>13,128,870</u> |
| Net Capital Assets | <u>\$ 9,893,435</u> | <u>\$ (630,892)</u> | <u>\$ -</u> | <u>\$ 9,262,543</u> |

Component Units:

| | <u>Component Units</u> | | | |
|-----------------------------------|------------------------|---------------------|------------------------|-----------------------|
| Non-Depreciable Assets: | | | | |
| Land and Land Rights | \$ 22,912,137 | \$ - | \$ - | \$ 22,912,137 |
| Works of Art | 3,216,175 | - | - | 3,216,175 |
| Construction in Progress | 6,238,539 | 368,310 | - | 6,606,849 |
| Total Non-Depreciable Assets | <u>32,366,851</u> | <u>368,310</u> | <u>-</u> | <u>32,735,161</u> |
| Depreciable assets: | | | | |
| Land and Leasehold Improvements | 188,444 | - | - | 188,444 |
| Buildings and Structures | 91,871,024 | - | - | 91,871,024 |
| Facility and Steamline | 513,623,297 | - | - | 513,623,297 |
| Machinery, Equipment and Fixtures | 313,588,220 | 1,601,102 | (16,587,410) | 298,601,912 |
| Vehicles and Buses | 383,024 | - | - | 383,024 |
| Total Depreciable Assets | <u>919,654,009</u> | <u>1,601,102</u> | <u>(16,587,410)</u> | <u>904,667,701</u> |
| | <u>952,020,860</u> | <u>1,969,412</u> | <u>(16,587,410)</u> | <u>937,402,862</u> |
| Less Accumulated Depreciation | <u>478,218,731</u> | <u>-</u> | <u>7,899,280</u> | <u>486,118,011</u> |
| Net Capital Assets | <u>\$ 473,802,129</u> | <u>\$ 1,969,412</u> | <u>\$ (24,486,690)</u> | <u>\$ 451,284,851</u> |

Capital Asset Adjustments and Impairments

The Transportation Fund recorded an adjustment to capital assets for the year ended June 30, 2006, in accordance with GASB Statement No. 42 and the results of the physical inventory. GASB Statement No. 42 defines asset impairment as a significant and unexpected decline in the service utility of a capital asset. The fund records impaired assets at the lower of book value or fair market value. If the fair market value is unknown the asset is written down to zero. Buses that were damaged beyond repair were listed as impaired. The downtown trolley renovations work in process was listed as impaired because the fund stopped the trolley service due to the downtown construction and development. The trolley cars have a resale value but it is not determinable at this time. The trolley service may be restored in the future. The Cadillac Square facility was demolished for the Campus Martius project resulting in the remaining book value being written off.

As a result an expense of \$2,768,725 was recorded and is reflected in the Fund's statements in the City's financial statements at June 30 2006.

8. **Deferred Revenue:** Deferred revenue represents revenue received, but for which the revenue recognition criteria have not been met. Accordingly, these revenues are deferred until such time as the revenue recognition criteria is met.
9. **Due from/to Component Units:** Due from/to component units consist of sales, charges for services, and property tax revenue to various component units.

B. LIABILITIES

1. Commitments and Contingencies

- a. **Lawsuits and Claims:** The City is a defendant in numerous lawsuits and is also subject to other claims. It has been the City's experience that lawsuits and claims are often settled for amounts less than the stated demand. While it is not possible to determine the final outcome of these lawsuits and claims exactly, the City and its Legal Department have estimated that the liability for all such litigation and claims approximates \$217.8 million for Primary Government.
- b. **Grant Audits:** Several of the City's funds participate in a number of federally assisted grant programs, principally, the Community Development Block Grant, Weatherization - Department of Energy, Weatherization - Low Income Home Energy Assistance Program, and Substance Abuse Programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs prior to and/or including the year ended June 30, 2006, have not been conducted and/or completed. Accordingly, the funds' compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined as of June 30, 2006. Since the City believes such adjustments, if any, will not be material, no provision for possible adjustments has been made.
- c. **Detroit Housing Commission (DHC) Grant Audits:** Effective July 1, 2005, the City turned over the operation of the DHC to officials from the Housing and Urban Development as agreed upon in the Cooperative Endeavor Agreement. The reporting of the financial operation including the remaining liabilities of DHC is also part of the agreement with HUD.
- d. **Rate Matters:** The Water Fund is a party to certain challenges and disputes related to its waste water treatment rates by various groups and governmental entities. The challenges address the reasonableness of the overall revenue requirement to be attained, certain cost allocation methods, and ultimate amounts billed. Settlement discussions are ongoing and the ultimate resolution is not currently known.
- e. **Block Grant Funds:** Several revitalization projects in the City have used a combination of financing from governmental and private sources. One of the sources of governmental financing has been Section 108 loan notes from the Federal Government. As of June 30, 2006, future Block Grant Funds of \$28,315,000 were pledged as collateral for the amounts owed to the Federal Government under Section 108 of the Housing and Community Development Act of 1974, as amended.
- f. **Greater Detroit Resource Recovery Authority (Authority):** In 1991, the Authority sold its waste-to-energy facility to private investors in a sale-leaseback transaction for \$634.9 million. The purchase price was paid with \$127 million in cash, mortgage notes of \$342.7 million, and future assumption of revenue bonds payable in the amount of \$165.2 million. The purchasers agreed to lease the facility to an outside contractor for an initial lease term of 18 years. The outside contractor

will continue to operate the facility under a supplemental operating agreement with the Authority, which results in the Authority assuming most of the lease obligations. Upon expiration of the initial lease term (in Oct 2009), the Authority has options to renew the lease or to repurchase the facility. The City, under the supplemental service contract, has agreed to pay supplemental tipping fees to the Authority sufficient to, among other things, meet these obligations. The lease payments approximate the amortization of the mortgage notes. The cash proceeds from the sale of the facility will be reported as a finance obligation until the Authority's repurchase option is exercised or expires, at which time the gain on the sale will be recognized. Additionally, in 1991 the Authority distributed \$54 million of the cash proceeds to the City, which was reflected as a reduction of the Authority's equity.

Future minimum lease payments for each of the next three years for the initial lease term are as follows: 2007 – \$52,521,466; 2008 – \$34,719,333; and 2009 – \$34,719,333 (expiration year).

g. Other Contingencies: The General Fund has a contingent liability for the obligations of all other City funds should such funds be unable to generate sufficient funds to liquidate their liabilities. In particular, the Airport Fund, Detroit Transportation Corporation, and Transportation Fund have received varying levels of subsidy from the General Fund to fund operating requirements.

h. Construction Commitments: The City has commitments for future construction contracts. Construction in progress and remaining commitments at June 30, 2006, are as follows:

| | <u>Spent as of June 30, 2006</u> | <u>Remaining</u> |
|---------------------------|--------------------------------------|-----------------------|
| Public Protection | \$ 82,794,558 | \$ 96,520,328 |
| Municipal Facilities | 52,200,945 | 30,680,011 |
| Cultural and Recreational | 148,981,514 | 31,306,877 |
| Human Services | 3,874,171 | 2,629,969 |
| Municipal Services | <u>2,037,887</u> | <u>2,157,257</u> |
| | <u>\$ 289,889,075</u> | <u>\$ 163,294,442</u> |

i. Risk Management: The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. During fiscal 1995, the City issued \$100 million of Self-insurance Bonds, and a portion of proceeds were used to reimburse the General Fund for all of its fiscal 1995 legal judgments and workers' compensation claim payments (\$41 million). The bonds required that remaining funds be used for self-insurance activities. The City is self-insured for losses such as workers' compensation, legal, and disability benefits. The City currently reports the risk management activities of non-Enterprise Funds and the Transportation Fund (an Enterprise Fund) in its General Fund. Each fund pays insurance premiums to the General Fund based on past claims activities. All of the original bond proceeds have been spent. Because the Transportation fund is included in the General Fund's risk management activities, it does not record a liability in its financial statements. Risk management activities for the other Enterprise Funds are recorded and reported separately in those funds. The Library, a discretely presented component unit, reimburses the City for all costs incurred related to workers' compensation. The Library records the liability in its financial statements.

At June 30, 2006, the amount of the workers' compensation, legal claims and judgments, and disability benefits was estimated at \$193.1 million for Governmental Activities. The City has recognized a liability that approximated \$7.1 million in the General Fund as of June 30, 2006 for public liability and workers' compensation claims that were due as of year-end. All other claims liabilities are considered to be current (\$47.3 million) or long-term (\$138.7 million) liabilities and are recognized in the government-wide financial statements. This liability is the City's best estimate based on available information.

Changes in the reported liability for the years ended June 30, 2006 and 2005, respectively were as follows:

| | (In Millions) | |
|--|-----------------|-----------------|
| | June 30, 2006 | June 30, 2005 |
| Balance at Beginning of Year | \$ 197.6 | \$ 187.3 |
| Current Year Claims and Changes in Estimates | 44.4 | 32.3 |
| Claims Payments | (48.9) | (22.0) |
| Balance at End of Year | <u>\$ 193.1</u> | <u>\$ 197.6</u> |

Claims, expenditures, and liabilities are reported in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (as amended by GASB Statement No. 17), when it is probable that an asset has been impaired or a liability has been incurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

As a result of the Risk Management Operations and the related increase in expense activity, at June 30, 2006, the General Fund has \$889,877 remaining in reserve for the purpose of funding the City's future claims liabilities.

2. **Other Commitments:** The City has entered into various noncancelable-operating leases for various equipment. The commitments under such lease agreements provide for minimum annual rental payments as follows:

| | |
|------------------------|----------------------|
| Fiscal Year Ending: | |
| 2007 | \$ 12,121,342 |
| 2008 | 9,029,714 |
| 2009 | 8,557,499 |
| 2010 | 6,458,856 |
| 2011 | 7,215,672 |
| 2012 and after | <u>9,987,555</u> |
| Total Minimum Payments | <u>\$ 53,370,638</u> |

Rental expense for all operating leases approximated \$16.6 million for the year ended June 30, 2006.

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverage.

3. **Short-Term Revenue and Tax Anticipation Notes:** Short obligations or notes due within one year at June 30, 2006, consist of Tax Anticipation Notes, Series 2006 (TANS) of \$79,595,000 and Revenue Anticipation Notes, Series 2006 (RANS) of \$45,640,000. Both notes mature on March 1, 2007, bear interest at 4.50% per year and are not subject to redemption prior to maturity. These notes are used to pay necessary operating expenditures of the City in the current fiscal year and cost of issuance of the notes. City levied operating taxes for the TANS and State Revenue Sharing payments for the RANS secure the notes.

| | Balance June 30, 2005 | Increase | Decrease | Balance June 30, 2006 |
|----------------------------|--------------------------|-----------------------|----------------------|--------------------------|
| Revenue Anticipation Notes | \$ 54,445,000 | \$ 45,640,000 | \$ 54,445,000 | \$ 45,640,000 |
| Tax Anticipation Notes | - | 79,595,000 | - | 79,595,000 |
| Total | <u>\$ 54,445,000</u> | <u>\$ 125,235,000</u> | <u>\$ 54,445,000</u> | <u>\$ 125,235,000</u> |

4. Long-Term Obligations

a. Governmental Activities

The Michigan Constitution established the authority, subject to constitutional and statutory prohibition, for municipalities to incur debt for public purposes. The City is subject to the Home Rule Act, Act 279 Public Acts of Michigan, 1909, as amended, which limits the net indebtedness incurred for all public purposes to as much as, but not to exceed, the greater of the following: (a) 10% of the assessed value of all the real and personal property in the City, or (b) 15% of the assessed value of all the real and personal property in the City if that portion of the total amount of indebtedness incurred which exceeds 10% is, or has been, used solely for the construction or renovation of hospital facilities.

In December 2005, the City issued \$51,760,000 of Unlimited Tax General Obligation Bonds (Unlimited Tax), Series 2005-B to finance various capital projects; the bonds will fully mature in April 2025, with an average yield of 4.24%.

In December 2005, General Obligation Refunding Bonds (Unlimited Tax), Series 2005-C were issued in the amount of \$30,805,000 to advance refund \$29,940,000 of previously issued Unlimited Tax General Obligation Bonds. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$865,000. This difference, reported in the financial statements as a deduction from bonds payable, is being charged through the year 2020 using the straight-line method.

| | Unlimited Tax Series 2005-C \$ 30,805,000 |
|--|--|
| Cash flow requirements to service old debt | \$ 46,930,000 |
| Less cash flow requirements for new debt | <u>44,600,342</u> |
| Net savings from refunding | <u>\$ 2,329,658</u> |

In prior years, the City defeased certain bonds by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements. The amount of defeased debt outstanding at June 30, 2006 approximated \$224.0 million.

Bonds Payable

The following is the schedule of the Governmental Activities Bonds Payable at June 30, 2006:

| Outstanding at June 30, 2006 | | | | | |
|---|-----------|---------------|---------------------------|---------------|----------------|
| | Bond Date | Amount Issued | Range of Interest Rates % | Maturity Date | Amount |
| <u>Governmental Activities:</u> | | | | | |
| General Obligation Bonds - Unlimited Tax | | | | | |
| Series 1996-A..... | 11-1-96 | \$ 22,195,000 | 5.20 | 4/1/2008 | \$ 1,830,000 |
| Series 1996-B..... | 11-1-96 | 1,350,000 | - | - | - |
| Series 1996-B..... | 11-1-96 | 21,975,000 | 5.10 to 5.50 | 4/1/07-15 | 21,975,000 c |
| Series 1997-A..... | 12-15-97 | 16,710,000 | 5.00 to 5.50 | 4/1/08 | 1,580,000 |
| Series 1997-B..... | 12-15-97 | 27,540,000 | 5.00 to 5.375 | 4/1/09-18 | 27,540,000 c |
| Series 1997-B..... | 12-15-97 | 17,525,000 | 5.50 | 4/1/07-08 | 1,480,000 |
| Series 1999-A..... | 4-1-99 | 18,280,000 | 5.00 to 5.38 | 4/1/09-14 | 18,280,000 c |
| Series 1999-A..... | 4-1-99 | 16,080,000 | 5.00 to 5.25 | 4/1/08-09 | 4,110,000 |
| Series 1999-B..... | 11-15-99 | 28,020,000 | 5.00 to 5.25 | 4/1/10-19 | 28,020,000 c |
| Series 1999-B..... | 11-15-99 | 16,785,000 | 5.0 to 5.125 | 4/1/08-10 | 5,885,000 |
| Series 2000-AMT..... | 2-15-00 | 28,215,000 | 5.25 | 4/1/11 | 2,165,000 c |
| Series 2000-AMT..... | 2-15-00 | 10,605,000 | 5.75 | 4/1/09-10 | 2,590,000 |
| Series 2001-A (1)..... | 7-15-01 | 16,800,000 | 3.80 to 5.50 | 4/1/07-11 | 8,395,000 |
| Series 2001-A (1)..... | 7-15-01 | 83,200,000 | 5.0 to 5.375 | 4/1/12-21 | 83,200,000 c |
| Series 2001-A(2)..... | 7-15-01 | 5,000,000 | Variable(3) | 4/1/22 | 5,000,000 c |
| Series 2001-B..... | 7-15-01 | 23,560,000 | 5.50 | 4/1/09-11 | 17,660,000 |
| Series 2001-B..... | 7-15-01 | 23,235,000 | 5.375 | 4/1/12-14 | 23,235,000 c |
| Series 2002..... | 8-2-02 | 15,795,000 | 4.00 | 4/1/10-11 | 3,835,000 |
| Series 2002..... | 8-2-02 | 29,205,000 | 4.00 to 5.13 | 4/1/12-22 | 8,675,000 c |
| Series 2003-A..... | 10-21-03 | 9,640,000 | 3.70 to 5.00 | 4/1/10-13 | 9,640,000 |
| Series 2003-A..... | 10-21-03 | 34,380,000 | 4.00 to 5.25 | 4/1/14-23 | 34,380,000 c |
| Series 2003-B..... | 10-21-03 | 10,770,000 | - | - | - |
| Series 2004-A(1)..... | 9-9-04 | 39,270,000 | 4.25 to 5.25 | 4/1/19-24 | 39,270,000 c |
| Series 2004-A(2)..... | 9-9-04 | 2,055,000 | 4.57 | 4/1/12 | 2,055,000 |
| Series 2004-B(1)..... | 9-9-04 | 23,720,000 | 3.75 to 5.00 | 4/1/12-14 | 23,720,000 |
| Series 2004-B(1)..... | 9-9-04 | 29,365,000 | 4.0 to 5.25 | 4/1/15-18 | 29,365,000 c |
| Series 2004-B(2)..... | 9-9-04 | 17,270,000 | 3.92 to 5.24 | 4/1/09-18 | 17,270,000 |
| Series 2005-A..... | 1-5-05 | 81,050,000 | 5.00 | 4/1/07-11 | 61,145,000 |
| Series 2005-B..... | 12-1-05 | 13,840,000 | 4.00 to 5.00 | 4/1/10-16 | 13,840,000 |
| Series 2005-B..... | 12-1-05 | 37,920,000 | 4.30 to 5.00 | 4/1/17-25 | 37,920,000 c |
| Series 2005-C..... | 12-1-05 | 20,010,000 | 3.50 to 5.00 | 4/1/07-16 | 19,625,000 |
| Series 2005-C..... | 12-1-05 | 10,795,000 | 4.30 to 5.25 | 4/1/17-20 | 10,795,000 c |
| Distributable State Aid Bonds: | | | | | |
| Series 1993..... | 12-1-93 | 136,675,000 | 5.20 to 5.25 | 5/1/07-09 | 36,755,000 |
| Total General Obligation Bonds - Unlimited Tax..... | | | | | \$ 601,235,000 |

1- Interest rates equal to the Dutch Auction Rate.

c - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

| | | | Outstanding June 30, 2006 | | |
|--|--------------|------------------|------------------------------|------------------|------------------|
| | Bond Date | Amount Issued | Range of Interest Rates % | Maturity Date | Amount |
| Governmental Activities: | | | | | |
| General Obligation Bonds - Limited Tax | | | | | |
| Self-Insurance Bonds: | | | | | |
| Series 2003..... | 10-2-03 | \$ 98,895,000 | 2.99 to 4.97 | 5/1/06-13 | \$ 84,310,000 |
| Series 2004..... | 9-9-04 | 62,285,000 | 3.92 to 4.85 | 4/1/09-14 | 62,285,000 |
| General Obligation: | | | | | |
| Series 1997..... | 5-1-97 | 5,555,000 | 5.20 to 6.25 | 7/15/05-06 | 2,875,000 |
| Series 2002A..... | 6-27-02 | 52,725,000 | 5.00 | 4/1/06-07 | 13,835,000 |
| Series 2004A..... | 3-12-04 | 41,760,000 | 5.00 | 4/1/06-09 | 33,880,000 |
| Series 2004Fiscal Stabilization ... | 6-24-04 | 61,070,000 | 3.00 to 5.00 | 4/1/06-09 | 56,240,000 |
| Series 2005-A(1)..... | 6-24-05 | 21,325,000 | 4.27 to 4.53 | 4/1/06-15 | 21,325,000 |
| Series 2005-A(1)..... | 6-24-05 | 52,175,000 | 4.61 to 5.15 | 4/1/16-25 | 52,175,000 c |
| Series 2005-A(2)..... | 6-24-05 | 4,055,000 | 3.50 to 4.50 | 4/1/10-15 | 4,055,000 |
| Series 2005-A(2)..... | 6-24-05 | 9,475,000 | 4.00 to 5.00 | 4/1/16-25 | 9,475,000 c |
| Series 2005-B..... | 6-24-05 | 4,845,000 | 3.25 to 5.00 | 4/1/06-15 | 4,645,000 |
| Series 2005-B..... | 6-24-05 | 6,940,000 | 5.00 | 4/1/16-21 | 6,940,000 c |
| Total General Obligation Bonds-Limited Tax..... | | | | | 352,040,000 |
| Detroit Building Authority General Obligation Bonds: | | | | | |
| District Court Madison Center | | | | | |
| Project, Series 1996-A..... | 9-1-96 | 2,770,000 | 6.15 | 2/1/2006 | - |
| Project, Series 1996-A..... | 9-1-96 | 7,230,000 | 6.15 | 2/1/07-11 | 7,230,000 c |
| Project, Series 1996-B..... | 9-1-96 | 6,910,000 | 7.97 | 2/1/11 | 92,163 |
| Project, Series 1996-B..... | 9-1-96 | 1,000,000 | Variable (3) | 7/1/05-06 | 1,000,000 c |
| Total Detroit Building Authority General Obligation Bonds..... | | | | | 8,322,163 |
| Total General Obligation Bonds..... | | | | | 961,597,163 |
| Revenue Bonds: | | | | | |
| Convention Facility Limited Tax Revenue Bonds- Cobo Hall Expansion: | | | | | |
| Series 1993..... | 9-1-93 | 167,050,000 | 5.25 | 9/30/05-07 | 23,355,000 |
| Series 2003..... | 9-1-03 | 90,883,138 | 3.00 to 5.00 | 9/30/08-15 | 90,828,138 |
| Total Conventional Facility Limited Tax Revenue Bonds-Cobo Hall Expansion..... | | | | | 114,183,138 |
| Total Governmental Activities - Bonds Payable..... | | | | | \$ 1,075,780,301 |

3 – Interest rate are reset monthly at the stated current market interest rate.

c – Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

Notes Payable

The following is the schedule of Notes Payable at June 30, 2006:

| <u>Governmental Activities Notes Payable</u> | <u>Issue Date</u> | <u>Range of Interest Rates</u> | <u>Maturity Date</u> | <u>Amount Outstanding June 30, 2006</u> |
|---|-----------------------|--|--------------------------|---|
| Urban Renewal Fund: | | | | |
| Caraco Pharmaceutical Project (Secured by Future Block Grant Revenue)..... | 8/1/2002 | 3.45 to 4.16 | % 8/1/06-08 | \$ 3,276,000 |
| Ferry Street Project (Secured by Future Block Grant Revenue)..... | 4/28/1999 | 5.58 to 6.72 | % 8/1/04-19 | 2,725,000 |
| Garfield Project (Secured by Future Block Grant Revenue)..... | 6/5/1996 | 7.05 to 7.66 | % 8/1/06-15 | 1,735,000 |
| Riverbend Project (Secured by Future Block Grant Revenue)..... | 6/5/1996 | 7.05 to 7.67 | % 8/1/06-15 | 585,000 |
| Riverbend Project (Secured by Future Block Grant Revenue)..... | 10/28/1997 | 6.46 to 7.08 | % 8/1/03-16 | 405,000 |
| Stuberstone Project (Secured by Future Block Grant Revenue)..... | 10/28/1997 | 6.11 to 7.10 | % 8/1/03-16 | 300,000 |
| Vernor Lawndale Project (Secured by Future Block Grant Revenue).... | 8/27/2005 | LIBOR Rate Plus | % 8/1/13-25 | 1,800,000 |
| New Amsterdam Project (Secured by Future Block Grant Revenue).... | 8/1/2002 | 4.16 to 6.12 | % 8/1/08-22 | 9,700,000 |
| Mexicantown Welcome Center Project (Secured by Future Block Grant Revenue)..... | 1/13/2005 | LIBOR Rate Plus | 8/1/12-24 | 7,789,000 |
| Total Notes Payable..... | | | | <u>\$ 28,315,000</u> |

Loans Payable

The following is the schedule of Loans Payable at June 30, 2006:

| <u>Governmental Activities Loans Payable</u> | <u>Issue Date</u> | <u>Range of Interest Rates</u> | <u>Maturity Date</u> | <u>Amount Outstanding June 30, 2006</u> |
|--|-----------------------|--|--------------------------|---|
| Downtown Development Authority..... | 1991-1997 | - | % - | \$ 33,600,000 |
| Loans Payable GE Capital Schedule - 009..... | 10/30/2003 | 3.50 | % 7/1/05-2/1/09 | 1,399,940 |
| Loans Payable GE Capital Schedule - 010..... | 10/30/2003 | 3.80 | % 7/1/05-11-1-08 | 101,782 |
| Loans Payable GE Capital Schedule - 011..... | 11/15/2003 | 3.65 | % 7/1/05-4/15/08 | 4,762,289 |
| Loans Payable GE Capital Schedule - 012..... | 4/2/2004 | 3.61 | % 8/1/05-4/1/09 | 289,266 |
| Loans Payable GE Capital Schedule - 013..... | 4/9/2004 | 4.07 | % 7/1/05-6/1/14 | 882,855 |
| Loans Payable GE Capital Schedule - 014..... | 5/14/2004 | 4.07 | % 7/1/05-6/1/09 | 335,878 |
| Loans Payable GE Capital Schedule - 015..... | 5/14/2004 | 4.07 | % 7/1/05-11/1/07 | 72,654 |
| Loans Payable GE Capital Schedule - 021..... | 3/1/2005 | 4.08 | % 7/1/05-3/1/08 | 86,604 |
| Loans Payable GE Capital Schedule - 027..... | 7/1/2006 | 4.17 | % 7/1/07-3/1/11 | 32,910,781 |
| Total Loans Payable..... | | | | <u>\$ 74,442,049</u> |

The City entered into the above listed \$33.6 million loan payable with the Downtown Development Authority, a component unit. The loan was used to cover cost related to the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan is unsecured and bears no interest and will be repaid by the City as general operating funds become available. As such, the loan payable has not been included in either of the governmental activities annual principal or interest requirements.

Bonds Authorized and Unissued

The following is the schedule of Bonds Authorized and Unissued at June 30, 2006:

| | Authorized (Note A) | | | Unissued |
|---|---------------------|-----------|---------------|----------------|
| | Authority | Date | Amount | Amount |
| General Obligation Bonds (Tax Supported): | | | | |
| Sewer Construction | Electorate | 8/2/1960 | \$ 50,000,000 | \$ 24,000,000 |
| Public Safety..... | Electorate | 11/2/2004 | 120,000,000 | 97,025,000 |
| Municipal Facilities..... | Electorate | 11/7/2000 | 18,000,000 | 5,120,000 |
| Neighborhood/Economic Development..... | Electorate | 11/7/2000 | 30,000,000 | 3,105,000 |
| Neighborhood/Economic Development..... | Electorate | 11/2/2004 | 19,000,000 | 19,000,000 |
| Public Lighting | Electorate | 11/7/2000 | 30,000,000 | 5,135,000 |
| Public Lighting | Electorate | 11/2/2004 | 22,000,000 | 22,000,000 |
| Recreation, Zoo, Cultural..... | Electorate | 11/7/2000 | 56,000,000 | 14,310,000 |
| Recreation, Zoo, Cultural..... | Electorate | 11/2/2004 | 22,000,000 | 20,585,000 |
| Institute of Arts..... | Electorate | 11/7/2000 | 25,000,000 | 150,000 |
| Historical..... | Electorate | 11/6/2001 | 20,000,000 | 16,700,000 |
| Museum of African American History..... | Electorate | 4/29/2003 | 6,000,000 | 500,000 |
| Transportation..... | Electorate | 11/2/2004 | 32,000,000 | 22,000,000 |
| Total Bonds Authorized - Unissued..... | | | | \$ 249,630,000 |

Note A - The electorate approved an amendment to the State Constitution (the Headlee Amendment) November 7, 1978 that requires voter approval for the issuance of general obligation bonds effective December 22, 1978. The authority to issue bonds approved by the electors continues until revoked by the electors.

Debt Service Requirements

Summary of Governmental Activities Annual Principal and Interest Requirements for Bonds, Notes, and Other Debt Payable:

| Year Ending | Principal | | Interest | |
|-------------|-------------------------|-----------------------|-----------------------|----------------------|
| | General Obligation | | General Obligation | |
| | Bonds | Revenue Bonds | Bonds | Revenue Bonds |
| 2007 | \$ 87,113,147 | \$ 11,380,000 | \$ 50,392,677 | \$ 4,537,553 |
| 2008 | 91,960,750 | 11,975,000 | 46,575,303 | 3,924,484 |
| 2009 | 117,758,862 | 12,610,000 | 42,257,110 | 3,308,140 |
| 2010 | 87,870,259 | 12,792,471 | 36,433,033 | 3,176,144 |
| 2011 | 81,238,666 | 13,011,483 | 32,532,237 | 2,529,687 |
| 2012-2016 | 306,532,528 | 52,414,184 | 110,622,345 | 16,361,428 |
| 2017-2021 | 166,500,000 | - | 53,846,428 | - |
| 2022-2026 | 91,780,000 | - | 9,766,071 | - |
| Total | <u>\$ 1,030,754,212</u> | <u>\$ 114,183,138</u> | <u>\$ 382,425,204</u> | <u>\$ 33,837,436</u> |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

Annual Rollforwards

Long-term Obligations of Governmental Activities for the Year Ended June 30, 2006:

| | Balance June 30, 2005 | Increase | Decrease | Balance June 30, 2006 | Amount Due Within One Year |
|---|--------------------------|----------------|----------------|--------------------------|----------------------------------|
| Governmental Activities: | | | | | |
| Long-Term Bonds, Notes, Loans and POC's: | | | | | |
| Convention Facility-Cobo Center | | | | | |
| Expansion Revenue Bonds | \$ 125,013,138 | \$ - | \$ 10,830,000 | \$ 114,183,138 | \$ 11,380,000 |
| Detroit Building Authority Bonds - | | | | | |
| Madison Center Project | 9,921,953 | - | 1,599,790 | 8,322,163 | 1,367,163 |
| Distributable State Aid Bonds | 36,755,000 | - | - | 36,755,000 | 11,635,000 |
| Self-Insurance Limited Tax Bonds | 161,180,000 | - | 14,585,000 | 146,595,000 | 14,935,000 |
| General Obligation Tax Bonds | 543,095,000 | 82,565,000 | 61,180,000 | 564,480,000 | 34,330,000 |
| General Obligation Limited Tax Bonds | 228,240,000 | - | 22,795,000 | 205,445,000 | 20,500,000 |
| Total General Fund Bonds | 1,104,205,091 | 82,565,000 | 110,989,790 | 1,075,780,301 | 94,147,163 |
| Federal Note — Caraco Pharmaceutical Project | 4,266,000 | - | 990,000 | 3,276,000 | 1,038,000 |
| Federal Note — Ferry Project | 2,815,000 | - | 90,000 | 2,725,000 | 95,000 |
| Federal Note — Garfield Project | 1,840,000 | - | 105,000 | 1,735,000 | 105,000 |
| Federal Note — Stuberstone Project | 315,000 | - | 15,000 | 300,000 | 80,000 |
| Federal Note — Riverbend Project | 1,070,000 | - | 80,000 | 990,000 | 15,000 |
| Federal Note — New Amsterdam Project | 9,700,000 | - | - | 9,700,000 | - |
| Federal Note — Mexicantown Welcome Center | 7,789,000 | - | - | 7,789,000 | - |
| Federal Note — Vernor Lawndale Project | - | 1,800,000 | - | 1,800,000 | - |
| Loan Payable to Downtown | | | | | |
| Development Authority | 33,600,000 | - | - | 33,600,000 | - |
| Loans Payable-GE Capital - Schedule-009 | 1,892,182 | - | 492,242 | 1,399,940 | 509,750 |
| Loans Payable-GE Capital - Schedule-010 | 141,246 | - | 39,464 | 101,782 | 40,989 |
| Loans Payable-GE Capital - Schedule-011 | 7,459,520 | - | 2,697,231 | 4,762,289 | 1,849,095 |
| Loans Payable-GE Capital - Schedule-012 | 384,501 | - | 95,235 | 289,266 | 98,734 |
| Loans Payable-GE Capital - Schedule-013 | 1,178,881 | - | 296,026 | 882,855 | 95,320 |
| Loans Payable-GE Capital - Schedule-014 | 438,896 | - | 103,018 | 335,878 | 107,365 |
| Loans Payable-GE Capital - Schedule-015 | 121,556 | - | 48,902 | 72,654 | 50,863 |
| Loans Payable-GE Capital - Schedule-021 | 153,181 | - | 66,577 | 86,604 | 55,961 |
| Loans Payable-GE Capital - Schedule-027 | - | 34,892,660 | 1,981,879 | 32,910,781 | 8,958,945 |
| Total Governmental Notes and Loans | 73,164,963 | 36,692,660 | 7,100,574 | 102,757,049 | 13,100,022 |
| Pension Obligation Certificates | 1,170,607,422 | 771,087,136 | 734,924,390 | 1,206,770,168 | - |
| Total Long-Term Bonds, Notes, Loans, and Pension Obligation Certificates | 2,347,977,476 | 890,344,796 | 853,014,754 | 2,385,307,518 | 107,247,185 |
| Other Long-Term Obligations: | | | | | |
| Accrued Compensated Absences | 156,998,294 | - | 6,547,526 | 150,450,768 | 8,054,876 |
| Claims and Judgments | 132,942,181 | 31,652,938 | 38,036,909 | 126,558,210 | 43,764,375 |
| Workers' Compensation | 64,699,231 | 12,794,346 | 10,949,980 | 66,543,597 | 10,660,110 |
| Total Other Long-Term Obligations | 354,639,706 | 44,447,284 | 55,534,415 | 343,552,575 | 62,479,361 |
| Total Long-Term Obligations | \$ 2,702,617,182 | \$ 934,792,080 | \$ 908,549,169 | \$ 2,728,860,093 | \$ 169,726,546 |

b. Business-type Activities

Sewage Disposal Fund

The outstanding indebtedness of the Sewage Disposal Fund for revenue bonds was \$2,657,446,122, and \$9,031,280 for Pension Obligation Certificates (POC) payable at June 30, 2006. The interest rates on the outstanding revenue bonds range from 4.2% to 6.5%. Net revenues of the Sewerage Disposal Fund are pledged to repayment of bonds.

In prior years, the Sewer Fund defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in its financial statements. Similarly, the interest expensed in relation to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the statements of Revenues, Expenses, and Changes in Fund Net Assets. Since there was no bond issuance activity as of June 30, 2006, approximately \$400,800,000 of bonds outstanding are still considered defeased.

| | Principal | Bond Interest | Swap Interest | Total Requirements |
|----------------------|-------------------------|-------------------------|-----------------------|-------------------------|
| Year ending June 30: | | | | |
| 2007 | \$ 53,205,000 | \$ 98,382,197 | \$ 32,993,250 | \$ 184,580,447 |
| 2008 | 53,704,128 | 100,782,453 | 33,554,365 | 188,040,946 |
| 2009 | 56,925,000 | 107,542,236 | 32,780,631 | 197,247,867 |
| 2010 | 59,795,000 | 105,879,518 | 33,307,497 | 198,982,015 |
| 2011 | 62,270,000 | 102,905,996 | 32,646,118 | 197,822,114 |
| 2012 – 2016 | 330,454,096 | 515,844,103 | 178,428,909 | 1,024,727,108 |
| 2017 – 2021 | 375,230,225 | 490,294,825 | 198,035,091 | 1,063,560,141 |
| 2022 – 2026 | 417,647,673 | 417,634,980 | 205,211,098 | 1,040,493,751 |
| 2027 – 2031 | 627,835,000 | 222,394,897 | 97,112,842 | 947,342,739 |
| 2032 – 2036 | 620,380,000 | 68,643,718 | 19,553,665 | 708,577,383 |
| | <u>\$ 2,657,446,122</u> | <u>\$ 2,230,304,923</u> | <u>\$ 863,623,466</u> | <u>\$ 5,751,374,511</u> |

Bonds outstanding at June 30, 2006, include \$2,168,269,847 of bonds callable at various dates after June 30, 2006. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

In June 2006, the City refunded the Series 2005 POC that were used to fund certain unfunded accrued actuarial liabilities. The Series 2006 POC Refunding resulted in the Sewage Disposal Fund with a re-allocated obligation of \$9,031,280 out of the total obligation of \$948,500,000.

Transportation Fund

In June 2006, the City refunded the Series 2005 POC that were used to fund certain unfunded accrued actuarial liabilities. The Series 2006 refunding resulted in a re-allocated obligation of \$106,268,234 for the Transportation Fund out of the total obligation of \$948,540,000.

Capital Leases

During the year ended June 30, 2005, the Fund entered into a capital lease agreement with GE Capital Public Finance, Inc. to lease 121 buses. The cost of the 121 buses under capital lease was \$37,294,362. The annual interest rate of the lease is 4.12% for 38 buses and 4.22% for 83 buses. The capital lease has been recorded at the present value of the future minimum lease payments as of the date of their inception. The present value of future minimum capital lease payments, interest, and the minimum annual lease payment for the 121 buses received as of June 30, 2006 is as follows:

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

| | <u>Year</u> | <u>Minimum Lease Payment Includes (Principal and Interest)</u> |
|---|-------------|--|
| Fiscal year ending June 30: | 2007 | \$ 4,561,942 |
| | 2008 | 4,563,578 |
| | 2009 | 4,563,578 |
| | 2010 | 4,563,578 |
| | 2011 | 4,563,579 |
| | 2012-2015 | 18,183,246 |
| Total minimum lease payments | | 40,999,501 |
| Less: Amount representing interest | | (7,116,936) |
| Present value of minimum capital lease payments | | <u>\$ 33,882,565</u> |

Interest revenue generated from the investment of the capital lease escrow funds for 2005 and 2006 for a combined total of \$349,119 was applied to FY 2006 to reduce the principal due on the capital lease.

Water Fund

The outstanding indebtedness of the Fund for revenue bonds was approximately \$1,971,743,954, and \$162,415,317 for POC payable at June 30, 2006. The interest rates on the outstanding fixed-rate revenue bonds range from 4.30% to 6.38%. Net revenues of the Fund are pledged to repayment of bonds.

In prior years, the Water Fund defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in its financial statements. Similarly, the interest expensed in relation to the defeased bonds and the related interest income earned on the escrow fund investments have not been recognized in the statements of revenues, expenses, and changes in fund net assets. As of June 30, 2006, approximately \$666,845,000 of bonds outstanding are considered defeased.

Future debt service requirements as of June 30, 2006, are as follows:

| | <u>Bond Principal</u> | <u>Bond Interest</u> | <u>Swap Interest</u> | <u>Total Requirements</u> |
|----------------------|---------------------------|--------------------------|--------------------------|-------------------------------|
| Year ending June 30: | | | | |
| 2007 | \$ 25,535,000 | \$ 93,995,842 | \$ 25,260,767 | \$ 144,791,609 |
| 2008 | 27,025,000 | 93,168,039 | 25,540,372 | 145,733,411 |
| 2009 | 36,145,000 | 91,782,661 | 25,499,099 | 153,426,760 |
| 2010 | 35,755,000 | 90,148,553 | 25,453,115 | 151,356,668 |
| 2011 | 37,625,000 | 88,720,191 | 25,364,700 | 151,709,891 |
| 2012 – 2016 | 222,743,954 | 413,440,268 | 123,130,238 | 759,314,460 |
| 2017 – 2021 | 275,225,000 | 358,333,894 | 118,104,233 | 751,663,127 |
| 2022 – 2026 | 325,090,000 | 288,434,928 | 100,020,618 | 713,545,546 |
| 2027 – 2031 | 456,620,000 | 193,380,804 | 66,156,762 | 716,157,566 |
| 2032 – 2036 | 529,980,000 | 69,464,886 | 35,724,841 | 635,169,727 |
| Total | <u>\$ 1,971,743,954</u> | <u>\$ 1,780,870,066</u> | <u>\$ 570,254,745</u> | <u>\$ 4,322,868,765</u> |

Bonds outstanding at June 30, 2006 include \$1,718,013,954 of bonds callable at various dates after June 30, 2006. These bonds are callable at varying premiums, depending on the issue and length of time to maturity.

In June 2006, the City refunded the FY 2005 POC issued in June 2005 that were used to fund certain unfunded accrued actuarial liabilities. The FY 2006 POC refunding resulted in the Water Fund re-allocation of an obligation of \$162,415,317.

Bonds Payable

The following is the schedule of the Business-type Activities Bonds Payable at June 30, 2006:

| Outstanding June 30, 2006 | | | | | |
|---|-----------|---------------|-------------------------|---------------|----------------------|
| | Bond Date | Amount Issued | Range of Interest Rates | Maturity Date | Amount |
| Business-type Activities: | | | | | |
| <u>Sewage Disposal Fund</u> | | | | | |
| Sewage Disposal System Revenue Bonds: | | | | | |
| Series 1992-A-SRF (5044-01)..... | 6-25-92 | \$ 4,360,000 | 2.00% | 4/1/07-13 | \$ 1,725,000 c |
| Series 1992-B-SRF (5070-01)..... | 9-10-92 | 1,915,000 | 2.00 | 10/1/05-13 | 860,000 c |
| Series 1993-B-SRF (5091 & 5092)..... | 9-30-93 | 6,603,996 | 2.00 | 10/1/05-14 | 3,260,000 c |
| Series 1995-A..... | 11-1-95 | 132,430,000 | - | - | - |
| Series 1995-B..... | 11-1-95 | 61,570,000 | 5.0 | 7/1/2006 | 2,155,000 c |
| Series 1995-B..... | 11-1-95 | 63,725,000 | 4.90 to 6.25 | 7/1/07-10 | 16,635,000 |
| Series 1997-A..... | 6-15-97 | 73,654,128 | 5.00 to 6.00 | 7/1/06-07 | 36,754,128 c |
| Series 1997-A..... | 6-15-97 | 188,840,000 | 5.00 | 7/1/23-27 | 66,415,000 c |
| Series 1997-B-SRF (5125-01)..... | 9-30-97 | 5,430,174 | 2.25 | 10/1/06-18 | 3,760,000 c |
| Series 1998-A..... | 12-10-98 | 69,000,000 | Variable (3) | 7/1/06-23 | 68,000,000 c |
| Series 1998-B..... | 12-10-98 | 68,955,000 | Variable (3) | 7/1/06-23 | 67,800,000 c |
| Series 1999-SRF-1 (5126-01)..... | 6-24-99 | 21,475,000 | 2.50 | 4/1/07-20 | 16,110,000 c |
| Series 1999-SRF-2 (5143-01)..... | 9-30-99 | 46,000,000 | 2.50 | 10/1/06-20 | 40,480,000 c |
| Series 1999-SRF-3 (5144-01)..... | 9-30-99 | 31,030,000 | 2.50 | 10/1/06-20 | 24,660,000 c |
| Series 1999-SRF-4 (5175-01)..... | 9-30-99 | 40,655,000 | 2.51 | 10/1/06-20 | 32,310,000 c |
| Series 1999-A..... | 12-1-99 | 40,735,179 | 4.75 to 5.25 | 7/1/06-21 | 34,590,179 |
| Series 1999-A..... | 12-1-99 | 262,260,000 | 5.125 | 7/1/2007 | 570,000 c |
| Series 2000-SRF-1 (5143-02)..... | 9-28-00 | 53,475,000 | 2.50 | 10/1/06-22 | 45,237,829 c |
| Series 2000-SRF-2 (5175-02)..... | 9-28-00 | 65,000,000 | 2.50 | 10/1/06-22 | 54,006,846 c |
| Series 2001-SRF-1 (5175-03)..... | 6-28-01 | 82,200,000 | 2.50 | 10/1/06-24 | 78,990,000 c |
| Series 2001-SRF-2 (5175-04)..... | 6-28-01 | 57,195,868 | 2.50 | 10/1/06-24 | 57,515,000 c |
| Series 2001-A..... | 9-15-01 | 76,375,000 | 5.00 to 5.13 | 7/1/11-31 | 76,375,000 c |
| Series 2001-B..... | 9-15-01 | 110,550,000 | 5.50 | 7/1/23-29 | 110,550,000 |
| Series 2001-C(1)..... | 9-23-01 | 159,970,000 | Variable (3) | 7/1/06-27 | 156,120,000 c |
| Series 2001-C(2)..... | 9-23-01 | 127,165,000 | Variable (3) | 7/1/06-24 | 124,255,000 c |
| Series 2001-D..... | 9-23-01 | 92,450,000 | Variable (3) | 7/1/32 | 92,450,000 c |
| Series 2001-E..... | 9-23-01 | 139,080,000 | Variable (3) | 7/1/24-31 | 139,080,000 c |
| Series 2002 SRF-1 (5204-01)..... | 10-27-01 | 18,985,000 | 2.50 | 4/1/07-23 | 16,700,000 c |
| Series 2002-SRF-2(5204-02)..... | 10-27-01 | 1,970,000 | 2.50 | 4/1/07-23 | 1,310,369 c |
| Series 2002-SRF-3(5175-05)..... | 12-19-02 | 43,740,000 | 2.50 | 10/1/06-33 | 19,254,804 c |
| Series 2003-A..... | 5-22-03 | 158,000,000 | 5.00 | 7/1/06-13 | 123,860,000 c |
| Series 2003-A..... | 5-22-03 | 441,380,000 | 5.00 | 7/1/14-32 | 424,695,000 c |
| Series 2003-B..... | 5-22-03 | 150,000,000 | Variable (3) | 7/1/32-33 | 150,000,000 c |
| Series 2003-SRF-1(5204-04)..... | 6-28-03 | 48,520,000 | 2.50 | 10/1/06-25 | 41,378,951 c |
| Series 2003-SRF-2(5204-03)..... | 9-25-03 | 25,800,000 | 2.50 | 4/1/07-25 | 21,645,455 c |
| Series 2004-A..... | 1-9-04 | 101,435,000 | 3.00 to 5.25 | 7/1/06-24 | 100,865,000 |
| Series 2004 SRF-1(5204-05)..... | 6-24-04 | 2,910,000 | 2.125 | 10/1/06-24 | 2,649,453 c |
| Series 2004 SRF-2(5204-06)..... | 6-24-04 | 18,690,000 | 2.125 | 7/1/06-25 | 16,081,411 c |
| Series 2004 SRF-3(5228-01)..... | 6-24-04 | 12,920,000 | 2.125 | 7/1/06-25 | 11,611,697 c |
| Series 2005-A..... | 3-17-05 | 3,765,000 | 2.75 to 3.70 | 7/1/08-15 | 3,765,000 |
| Series 2005-A..... | 3-17-05 | 269,590,000 | 3.75 to 5.125 | 7/1/16-35 | 269,590,000 c |
| Series 2005-B..... | 3-17-05 | 40,215,000 | 3.40 to 5.50 | 7/1/12-22 | 40,215,000 |
| Series 2005-C..... | 3-17-05 | 22,065,000 | 2.40 to 5.00 | 7/1/06-25 | 22,065,000 |
| Series 2005-C..... | 3-17-05 | 41,095,000 | 5.00 | 7/1/16-26 | 41,095,000 c |
| Total Sewage Disposal System Revenue Bonds..... | | \$ | | | <u>2,657,446,122</u> |

3 - Interest rates are reset monthly at the stated current market interest rate.

c - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

| Outstanding June 30, 2006 | | | | | |
|---|--------------|------------------|----------------------------|------------------|------------------|
| | Bond Date | Amount Issued | Range of Interest Rates | Maturity Date | Amount |
| Business-type Activities: | | | | | |
| <u>Water Fund</u> | | | | | |
| Water Supply System Revenue Bonds: | | | | | |
| Series 1993..... | 10-15-93 | \$ 38,225,000 | 6.50% | 7/1/14-15 | \$ 24,725,000 |
| Series 1995-A..... | 10-15-95 | 102,100,000 | 5.00-5.55 | 7/1/06-12 | 22,115,000 |
| Series 1995-B..... | 10-15-95 | 60,485,000 | 5.00-5.55 | 7/1/06-12 | 54,450,000 |
| Series 1997-A..... | 8-1-97 | 29,080,000 | 5.25 | 7/1/2006 | 46,795,000 |
| Series 1997-A..... | 8-1-97 | 186,220,000 | 4.80 to 5.25 | 7/1/07-27 | 74,575,000 |
| Series 1997-B..... | 8-1-97 | 30,555,000 | 5.25 | 7/1/2006 | 7,720,000 |
| Series 1999-A..... | 11-1-99 | 18,000,000 | 4.75 to 5.25 | 7/1/06-09 | 8,000,000 |
| Series 1999-A..... | 11-1-99 | 238,340,000 | 5.125 | 7/1/10 | 2,000,000 |
| Series 2001-A..... | 5-1-01 | 1,320,000 | 4.50 | 7/1/2011 | 1,320,000 |
| Series 2001-A..... | 5-1-01 | 301,165,000 | 4.50 to 5.75 | 7/1/12-33 | 166,355,000 |
| Series 2001-B..... | 5-1-01 | 108,985,000 | 4.50 to 5.50 | 7/1/12-33 | 108,985,000 |
| Series 2001-C..... | 6-7-01 | 192,290,000 | Variable (3) | 7/1/06-29 | 191,500,000 |
| Series 2003-A..... | 1-28-03 | 234,805,000 | 4.75 to 5.25 | 7/1/14-34 | 234,805,000 |
| Series 2003-B..... | 1-28-03 | 23,580,000 | 2.50 to 5.25 | 7/1/06-14 | 20,860,000 |
| Series 2003-B..... | 1-28-03 | 172,945,000 | 4.25 to 5.25 | 7/1/15-33 | 149,365,000 |
| Series 2003-C..... | 1-28-03 | 21,030,000 | 2.00 to 5.00 | 7/1/06-14 | 11,665,000 |
| Series 2003-C..... | 1-28-03 | 25,325,000 | 4.25 to 5.25 | 7/1/15-22 | 25,325,000 |
| Series 2003-D..... | 1-28-03 | 151,370,000 | Variable (3) | 7/1/06-33 | 150,545,000 |
| Series 2004-A..... | 5-04-04 | 77,010,000 | Variable (3) | 7/1/11-24 | 77,010,000 |
| Series 2004-B..... | 5-04-04 | 163,590,000 | Variable (3) | 7/1/06-23 | 163,590,000 |
| Series 2005-A..... | 3-11-05 | 20,965,000 | 3.00 to 5.00 | 7/1/08-15 | 20,965,000 |
| Series 2005-A..... | 3-11-05 | 84,035,000 | 3.85 to 5.00 | 7/1/16-35 | 84,035,000 |
| Series 2005-B..... | 3-11-05 | 195,000,000 | Variable (3) | 7/1/10-35 | 195,000,000 |
| Series 2005-C..... | 3-11-05 | 26,670,000 | 3.00-5.00 | 7/1/06-15 | 35,115,000 |
| Series 2005-C..... | 3-11-05 | 126,605,000 | 5.00 | 7/1/16-22 | 90,200,000 |
| Series 2005 SRF-1 (7161-01) | 9-22-05 | 15,265,000 | 2.125 | 10/1/07-26 | 2,618,248 |
| Series 2005 SRF-2 (7162-01) | 9-22-05 | 10,710,000 | 2.125 | 10/1/07-26 | 2,105,706 |
| Total Water Supply System Revenue Bonds | | | | | \$ 1,971,743,954 |

Note A - Stated Principal amount of State Revolving Fund Bonds issued as part of the State of Michigan's Revolving Fund Loan Program. As the System draws additional amount from time to time hereafter, the outstanding principal amounts of such Bonds will correspondingly increase.

3-Interest rates are reset monthly at the stated current market interest rate.

c -Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable

| <u>Automobile Parking Fund</u> | | <u>Outstanding June 30, 2006</u> | | | |
|---|----------------------|----------------------------------|------------------------------------|--------------------------|-------------------------|
| | <u>Bond Date</u> | <u>Amount Issued</u> | <u>Range of Interest Rates</u> | <u>Maturity Date</u> | <u>Amount</u> |
| Detroit Building Authority Bonds - Revenue Refunding Bonds: | | | | | |
| Parking System-Series 1997A..... | 2-15-97 | \$ 3,050,000 | 4.80 | 7/1/05-06 | \$ 385,000 |
| Parking System-Series 1997B..... | 2-15-97 | 37,695,000 | 6.79 | 7/1/05-06 | 5,165,000 |
| Parking System-Series 1998A..... | 7-1-98 | 9,825,000 | 4.50 to 5.25 | 7/1/05-07 | 2,165,000 |
| Parking System-Series 1998A(A)..... | 7-1-98 | 17,445,000 | 4.70 to 5.125 | 7/1/08-19 | 18,615,000 c |
| Parking System-Series 1999A..... | 10-22-99 | 29,900,000 | Variable (3) | 7/27/05-29 | 27,900,000 c |
| Total Detroit Building Authority Revenue Refunding Bonds..... | | | | | <u>\$ 54,230,000</u> |
| Total Business-type Bonds..... | | | | | <u>\$ 4,683,420,076</u> |

Note A -Stated Principal amount of State Revolving Fund Bonds issued as part of the State of Michigan's Revolving Fund Loan Program. As the System draws additional amount from time to time hereafter, the outstanding principal amounts of such Bonds will correspondingly increase.

3 - Interest rates are reset monthly at the stated current market interest rate.

c - Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable

Automobile Parking Fund

The outstanding indebtedness of the Parking Fund was \$54,230,000 at June 30, 2006. The interest rates on the outstanding fixed-rate revenue refunding bonds range from 4.50% to 7.75%.

Future debt service requirements as of June 30, 2006, are as follows:

| | Bond Principal | Bond Interest | Swap Interest | Total Requirements |
|----------------------|----------------------|---------------------|----------------------|-----------------------|
| Year ending June 30: | | | | |
| 2007 | \$ 7,105,000 | 1,422,233 | \$ 2,077,643 | \$ 10,604,876 |
| 2008 | 1,610,000 | 997,661 | 2,246,728 | 4,854,389 |
| 2009 | 1,670,000 | 939,386 | 1,997,587 | 4,606,973 |
| 2010 | 1,830,000 | 877,961 | 1,960,457 | 4,668,418 |
| 2011 | 1,890,000 | 820,151 | 2,110,171 | 4,820,322 |
| 2012 - 2016 | 11,170,000 | 3,084,350 | 9,214,000 | 23,468,350 |
| 2017 - 2021 | 12,855,000 | 979,131 | 7,533,270 | 21,367,401 |
| 2022 - 2026 | 7,600,000 | - | 5,157,618 | 12,757,618 |
| 2024 - 2030 | 8,500,000 | - | 1,735,428 | 10,235,428 |
| | <u>\$ 54,230,000</u> | <u>\$ 9,120,873</u> | <u>\$ 34,032,902</u> | <u>\$ 97,383,775</u> |

Included in long-term debt are \$1.483 billion of variable rate demand bonds. These bonds mature serially through July 2035. Of that amount, \$705 million of the bonds are Sewage Disposal System Revenue Bonds, and \$778 million are Water Supply Fund Bonds. Generally these bonds have a variable interest rates that are adjusted weekly, with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the City's several remarketing agents. The City pays the remarketing agent fees in the range of 0.04% - 0.125% interest on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the City has a standby bond purchase agreement with a liquidity facility entity. The City has several such agreements, with the fees ranging from 0.150% to 0.230% interest on the outstanding bonds. The City, in the event a liquidity facility is utilized, has reimbursement agreements with different financial entities. Generally the payback period is five to seven years, at an interest rate initially set at slightly above prime or the federal funds rate.

Sewage Disposal and Water Supply System Bonds subject to these agreements are as follows:

| | Date | Mode | Payable | Remarketing Agent | Liquidity Facility | Insurer | Outstanding Amount |
|---|----------|----------|------------------|-------------------|--------------------|---------|-----------------------|
| Sewage Disposal System Revenue Bonds: | | | | | | | |
| Series 1998-A..... | 12-10-98 | Weekly | 1st day of month | UBS | JPMorgan | MBIA | \$ 68,000,000 |
| Series 1998-B..... | 12-10-98 | Weekly | 1st day of month | Merrill Lynch | JPMorgan | MBIA | 67,800,000 |
| Series 2001-C(1)..... | 9-23-01 | Weekly | 1st day of month | UBS | Dexia | FSA | 156,120,000 |
| Series 2001-C(2)..... | 9-23-01 | Weekly | 1st day of month | UBS | FGIC Securities | FGIC | 124,255,000 |
| Series 2001-E..... | 9-23-01 | Flexible | Annually | UBS | FGIC Securities | FGIC | 139,080,000 |
| Series 2003-B..... | 5-22-03 | Weekly | 1st day of month | UBS | Dexia | FSA | 150,000,000 |
| Total Sewage Disposal System Revenue Bonds..... | | | | | | | <u>\$ 705,255,000</u> |
| Water Supply System Revenue Bonds: | | | | | | | |
| Series 2001-C..... | 6-7-01 | Weekly | 1st day of month | Goldman Sachs | FGIC Securities | FGIC | \$ 191,500,000 |
| Series 2003-D..... | 1-28-03 | Weekly | 1st day of month | JPMorgan | JPMorgan | MBIA | 150,545,000 |
| Series 2004-A..... | 5-04-04 | Weekly | 1st day of month | Raymond James | Dexia | MBIA | 77,010,000 |
| Series 2004-B..... | 5-04-04 | Weekly | 1st day of month | Raymond James | Dexia | MBIA | 163,590,000 |
| Series 2005-B..... | 3-11-05 | Weekly | 1st day of month | Lehman | Dexia | FGIC | 195,000,000 |
| Total Water Supply System Revenue Bonds..... | | | | | | | <u>\$ 777,645,000</u> |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

Annual Rollforwards

Long-Term Obligations of Business-type Activities for the Year Ended June 30, 2006:

| | Balance June 30, 2005 | Increase | Decrease | Balance June 30, 2006 | Amount Due Within One Year |
|---|--------------------------|-----------------------|-----------------------|--------------------------|----------------------------------|
| <u>Business-type Activities</u> | | | | | |
| <u>Major Funds:</u> | | | | | |
| Long-Term Debt and Obligations: | | | | | |
| Sewage Disposal Fund: | | | | | |
| Bonds Payable | \$ 2,653,826,572 | \$ 53,654,550 | \$ 50,035,000 | \$ 2,657,446,122 | \$ 53,205,000 |
| Pension Obligation Certificates Payable | 8,760,811 | 5,767,123 | 5,496,654 | 9,031,280 | - |
| Accrued Compensated Absences | 13,917,806 | 3,256,908 | 3,274,943 | 13,899,771 | 2,281,068 |
| Accrued Public Liability and Workers' Compensation | 4,727,969 | 964,548 | 558,999 | 5,133,518 | 811,538 |
| Transportation Fund: | | | | | |
| Capital Lease for Buses | 32,110,926 | 1,771,639 | - | 33,882,565 | 2,577,808 |
| Pension Obligation Certificates Payable | 103,083,553 | 67,905,979 | 64,721,298 | 106,268,234 | - |
| Accrued Compensated Absences | 3,799,164 | 859,992 | - | 4,659,156 | 3,727,325 |
| Accrued Public Liability and Workers' Compensation | 4,961,360 | 870,017 | - | 5,831,377 | 1,166,275 |
| Water Fund: | | | | | |
| Bonds Payable | 1,991,615,000 | 4,723,954 | 24,595,000 | 1,971,743,954 | 25,535,000 |
| Pension Obligation Certificates Payable | 157,548,214 | 103,779,761 | 98,912,658 | 162,415,317 | - |
| Accrued Compensated Absences | 18,413,672 | 5,103,411 | 4,888,782 | 18,628,301 | 3,715,980 |
| Accrued Public Liability and Workers' Compensation | 18,711,346 | 4,356,803 | 4,956,733 | 18,111,416 | 2,913,177 |
| Automobile Parking Fund: | | | | | |
| Bonds Payable | 60,845,000 | 3,535,000 | 10,150,000 | 54,230,000 | 7,105,000 |
| Accrued Compensated Absences | 559,191 | 198,789 | - | 757,980 | 157,604 |
| Accrued Public Liability and Workers' Compensation | - | 821,702 | - | 821,702 | 292,225 |
| <u>Non-Major Fund:</u> | | | | | |
| Accrued Compensated Absences | 369,537 | - | 140,413 | 229,124 | 25,790 |
| Accrued Public Liability and Workers' Compensation | 80,286 | 117,662 | - | 197,948 | 197,948 |
| Total Long-Term Debt and Obligations | <u>\$ 5,073,330,407</u> | <u>\$ 257,687,838</u> | <u>\$ 267,730,480</u> | <u>\$ 5,063,287,765</u> | <u>\$ 103,711,738</u> |
| | | | | | |
| Total Bonds and Leases Payable | <u>\$ 4,738,397,498</u> | <u>\$ 63,685,143</u> | <u>\$ 84,780,000</u> | <u>\$ 4,717,302,641</u> | <u>\$ 88,422,808</u> |
| Total POC Payable | <u>\$ 269,392,578</u> | <u>\$ 177,452,863</u> | <u>\$ 169,130,610</u> | <u>\$ 277,714,831</u> | <u>\$ -</u> |
| Total Accrued Compensated Absences | <u>\$ 37,059,370</u> | <u>\$ 9,419,100</u> | <u>\$ 8,304,138</u> | <u>\$ 38,174,332</u> | <u>\$ 9,907,767</u> |
| Total Public Liability and Workers' Compensation | <u>\$ 28,480,961</u> | <u>\$ 7,130,732</u> | <u>\$ 5,515,732</u> | <u>\$ 30,095,961</u> | <u>\$ 5,381,163</u> |

c. Component Units

Future debt service requirements as of June 30, 2006, are as follows:

| Year Ending | Component Units | |
|-------------|-----------------------|-----------------------|
| | Principal | Interest |
| 2007 | \$ 75,414,241 | \$ 25,858,672 |
| 2008 | 79,725,000 | 21,413,383 |
| 2009 | 88,785,000 | 19,034,947 |
| 2010 | 195,316,774 | 15,550,050 |
| 2011 | 23,520,000 | 10,073,719 |
| 2012-2016 | 53,596,463 | 65,528,505 |
| 2017-2021 | 63,418,097 | 49,544,341 |
| 2022-2026 | 22,443,638 | 49,232,875 |
| 2027-2031 | 16,054,999 | 2,248,818 |
| Total | <u>\$ 618,274,212</u> | <u>\$ 258,485,310</u> |

Annual Rollforwards

Long-term Obligations of Component Units for the Year Ended June 30, 2006:

| | Balance | | | Balance | Amount |
|--|-----------------------|-------------|----------------------|-----------------------|----------------------|
| | June 30, 2005 | Increase | Decrease | June 30, 2006 | Due Within One Year |
| Component Units: | | | | | |
| Bonds, Notes and Leases Payable | \$ 686,562,585 | \$ - | \$ 68,288,373 | \$ 618,274,212 | \$ 75,414,241 |
| Total Accrued Compensated Absences | 6,228,956 | - | 725,256 | 5,503,700 | 143,769 |
| Accrued Public Liability and Workers' Compensation | 274,899 | - | 108,000 | 166,899 | 8,356 |
| Total Component Units | | | | | |
| Long-Term Obligations | <u>\$ 693,066,440</u> | <u>\$ -</u> | <u>\$ 69,121,629</u> | <u>\$ 623,944,811</u> | <u>\$ 75,566,366</u> |

d. Pension Obligation Certificates (POC)

In June 2005, the Detroit Retirement Systems Funding Trust issued \$1,440,000,000 (\$640 million of fixed rate, Series A, and \$800 million of floating rate, Series B) of taxable POC. The Trust was created by the General Retirement System Service Corporation (GRSSC) and the Police and Fire Retirement System Service Corporation (PFRSSC), both blended component units of the City. The City entered into service contracts with the GRSSC and PFRSSC to facilitate the transaction.

The POC were issued for the purpose of funding certain unfunded actuarial liabilities (UAAL) of the two retirement systems of the City, which include the General Retirement System (GRS) and the Police & Fire Retirement System (PFRS), and a portion of the then current year normal contribution. The GRS includes employees and retirees of certain governmental funds, proprietary funds (Transportation Fund, Sewage Disposal Fund and Water Fund) and the Detroit Public Library, a discretely presented component unit.

Of the total proceeds of \$1,440,000,000, approximately \$46.4 million related to issuance costs that were capitalized as an asset on the government-wide and proprietary fund financial statements and are being amortized over 20 years, the life of the 2005 POC. An appropriate amount of the liability was recorded on the books of the Transportation, Sewage Disposal and Water Funds, based on those funds portion of the overall UAAL liquidated by the use of the 2005 POC net proceeds. Since the Detroit Public Library is a discretely presented component unit, its prorated portion of the POC liability assumed was included in the balance of the POC obligation recorded at the general government level. A calculated amount of approximately \$23.8 million, which represents the Library share of the UAAL reduction in 2005 was recorded as an advance to component units on GRSSC books and long term advance payable to primary government for the POC on the books of the Library. In connection with the 2005 transactions, the Service Corporations entered into interest rate exchange agreements (swap agreements) to hedge the variable rate interest exposure associated with the issuance of the 2005 Series-B Certificates.

The original Series A and Series B certificates were not specifically related to either of the Service Corporations. Rather, the amount of proceeds from the 2005 issuance were recorded on each Service Corporation's books based on the UAAL funding required for the corresponding Pension System.

Michigan law entitles each Retirement System to have its UAAL funded over a specified period (Amortization Period), which may be duly changed up to a 30-year maximum. Each 2005 Service Contract required the City to make 2005 POC service payments over a period that was limited to the PFRS or GRS Amortization Period (13 years for PFRS and 20 years for the GRS). The funding Ordinance anticipated the possible future extension of the PFRS and GRS Amortization Periods and authorized the Service Corporations, in that event to assist the City in gaining the financial benefits of making its 2005 POC Service payments over a similarly lengthened period.

On February 8, 2006, the governing board of the GRS extended the Amortization Period for GRS UAAL from 20 to 30 years. On March 30, 2006, the governing board of the PFRS UAAL extended the amortization period for PFRS UAAL from 13 to 30 years. The Taxable Certificates of Participation Series 2006 were issued to enable the City to replace certain scheduled payment obligations that it incurred to provide funding for the 2005 Subject UAAL with new scheduled payment obligations payable over the extended 30-year periods under the 2006 Service Contracts. This will enable the City to achieve financial benefits from the lengthened payment periods compared to the payment period included within the 2005 Series A and B payment schedules.

Accordingly, the Detroit Retirement Systems Funding Trust 2006 issued \$948,540,000 (\$148,540,000 of fixed rate Series A, and \$800 million of floating rate Series B) of taxable Series 2006 POC. The City also terminated the Swap agreements entered into in the 2005 transaction and received \$48,932,455.

The City did not pay off the \$104,055,000 of optionally redeemed Series A 2005 POC's until July 13, 2006. At June 30, 2006 the portion of the 2006 POC's proceeds to pay the \$104,055,000 POC's were in irrevocable trust investment accounts.

Retirement Trust 2006 account statements reflect that, on July 13, 2006 approximately \$104,404,000 of funds were disbursed to pay the POC's service obligation and accrued interest from June 15, 2006 (the last interest payment date) to July 13, 2006.

In economic substance, the City paid off \$904,055,000 of 2005 Series Certificates with the net proceeds from the \$948,540,000 received from the issuance of the 2006 POC. The net effect of this on the City's balance sheet is to add on additional \$44,485,000 of POC obligations to the government-wide balance sheet.

In June 2006, the City refinanced the POC's issued in June 2005 that were used to fund certain unfunded accrued actuarial liabilities. The Governmental Activities was allocated a refinanced obligation of \$771,088,864 out of the total obligation of \$948,540,000.

City of Detroit, Michigan
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The present value of the net economic loss from refunding of the COP's Series 2005 by the COP's Series 2006 is \$89,265,111.

| | Certificates of Participation Series 2006 \$948,540,000 |
|---|--|
| Cash flow requirements to service Series 2005 COP's | \$ 2,267,195,204 |
| Less cash flow requirements for new COP's | <u>2,356,736,036</u> |
| Net loss from refunding actually realized in Years 2026 to 2035 | <u>\$ (89,540,832)</u> |
| Economic Loss (annually) | <u>\$ (89,265,111)</u> |

The redemption dates and a summary of the aggregate principal and interest amounts for the Series 2006 Pension Obligation Certificates are as follows:

| Primary Government | | | | | | |
|-------------------------------|------------------------------------|---------------------------------|--------------------------------|-----------------------|-----------|----------------------|
| Principal | | | | | | |
| Maturity (June 15) | Governmental Activities | Business-type Activities | | | | Totals |
| | | Sewage Disposal Fund | Transportation Fund | Water Fund | | |
| 2007 | \$ - | \$ - | \$ - | \$ - | \$ | - |
| 2008 | - | - | - | - | | - |
| 2009 | - | - | - | - | | - |
| 2010 | 3,861,370 | 28,880 | 340,053 | 519,698 | | 4,750,001 |
| 2011 | 8,905,539 | 66,606 | 784,268 | 1,198,587 | | 10,955,000 |
| 2012-2016 | 113,686,862 | 850,288 | 10,011,862 | 15,300,989 | | 139,850,001 |
| 2017-2021 | 187,414,642 | 1,401,713 | 16,504,716 | 25,223,929 | | 230,545,000 |
| 2022-2026 | 240,058,527 | 1,795,449 | 21,140,814 | 32,309,208 | | 295,303,998 |
| 2027-2031 | 318,531,321 | 2,382,363 | 28,051,539 | 42,870,777 | | 391,836,000 |
| 2032-2035 | 334,311,907 | 2,505,981 | 29,434,982 | 44,992,129 | | 411,244,999 |
| Total | <u>\$ 1,206,770,168</u> | <u>\$ 9,031,280</u> | <u>\$ 106,268,234</u> | <u>\$ 162,415,317</u> | <u>\$</u> | <u>1,484,484,999</u> |

| Primary Government | | | | | | |
|-------------------------------|------------------------------------|---------------------------------|--------------------------------|-----------------------|-----------|----------------------|
| Interest | | | | | | |
| Maturity (June 15) | Governmental Activities | Business-type Activities | | | | Totals |
| | | Sewage Disposal Fund | Transportation Fund | Water Fund | | |
| 2007 | \$ 60,963,610 | \$ 455,960 | \$ 5,368,775 | \$ 8,205,025 | \$ | 74,993,370 |
| 2008 | 65,022,628 | 486,318 | 5,726,234 | 8,751,324 | | 79,986,504 |
| 2009 | 68,769,355 | 514,341 | 6,056,190 | 9,255,591 | | 84,595,477 |
| 2010 | 68,769,355 | 514,341 | 6,056,190 | 9,255,591 | | 84,595,477 |
| 2011 | 68,602,775 | 513,095 | 6,041,520 | 9,233,171 | | 84,390,561 |
| 2012-2016 | 332,625,000 | 2,487,772 | 29,292,703 | 44,767,630 | | 409,173,105 |
| 2017-2021 | 297,131,472 | 2,222,308 | 26,166,956 | 39,990,595 | | 365,511,331 |
| 2022-2026 | 243,484,882 | 1,821,074 | 21,442,557 | 32,770,358 | | 299,518,871 |
| 2027-2031 | 165,038,717 | 1,234,359 | 14,534,175 | 22,212,378 | | 203,019,629 |
| 2032-2035 | 52,643,635 | 393,733 | 4,636,075 | 7,085,248 | | 64,758,691 |
| Total | <u>\$ 1,423,051,429</u> | <u>\$ 10,643,301</u> | <u>\$ 125,321,375</u> | <u>\$ 191,526,911</u> | <u>\$</u> | <u>1,750,543,016</u> |

Deferred Amount on Refunding

The following shows the calculation of the total deferred amount on refunding and the effect on the Pension Obligation Payable by each fund. The total Deferred Amount on Refunding is comprised of the amount transferred from Series 2005 issuance costs of \$27,651,925 plus tender and redemption premiums paid of \$3,404,274, or a total of \$31,056,197. It will be amortized over the remaining life of the old POC's Series 2005 (19 years), which is shorter than the life of the new POC's Series 2006 (29 years).

| | Governmental Activities | Transportation Fund | Water Fund | Sewage Disposal Fund | Library |
|---|----------------------------|------------------------|----------------|----------------------------|---------------|
| POC Payable -2005 Series | \$ 435,683,032 | \$ 38,362,255 | \$ 58,635,556 | \$ 3,264,157 | \$ - |
| POC Payable -2006 Series | 771,087,136 | 67,905,979 | 103,779,761 | 5,767,123 | - |
| Advance Payable Primary Government | - | - | - | - | 24,554,826 |
| Deferred Amount On Refunding | (24,733,155) | (2,223,313) | (3,397,859) | (188,822) | (513,048) |
| Net POC Payable | \$ 1,182,037,013 | \$ 104,044,921 | \$ 159,017,458 | \$ 8,842,458 | \$ - |
| Net Advance Payable to Primary Government | \$ - | \$ - | \$ - | \$ - | \$ 24,041,778 |

5. Derivatives Not Reported at Fair Value

The City is party to derivative financial instruments consisting of interest rate swaps that are intended to effectively convert variable-rate financings to fixed-rate financings. These are not reported at fair value on the Statement of Net Assets at June 30, 2006.

Objective of the swaps. In order to better manage its interest rate exposure and to reduce the overall costs of its financings, the City has entered into 34 separate fixed-payor interest rate swaps.

Terms, fair values, and credit risk. Certain key terms, fair market values, and counterparty credit ratings relating to the outstanding swaps as of June 30, 2006, are presented below. The notional amounts of the swaps, except those with effective dates of 9/1/06 and 3/1/07 match the principal amounts of the outstanding financings. The swaps with effective dates of 9/1/06 and 3/1/07, were entered into to hedge future interest rate risk and will be associated with financings expected to be issued prior to the effective dates. Except as discussed under rollover risk, the City's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled or anticipated amortization of associated financings.

City of Detroit, Michigan
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Market access risk. The City is exposed to market access risk on its hedge swaps or forward starting swaps in the event that it will not be able to enter credit markets or in the event that the credit will become more costly.

| Associated Financing Issue | Notional Amounts (1) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values | Swap Termination Date | Final Maturity of Bonds | Counterparty Credit Rating |
|--------------------------------------|-------------------------|----------------|--------------------|---------------------------|----------------|-----------------------------|-------------------------------|-------------------------------|
| Building Authority Series 1999-A | \$ 27,900,000 | 10/22/1999 | 7.480% | LIBOR BBA | \$ (9,227,590) | 7/1/2029 | 7/1/2029 | Aa1/AA-/AA+ |
| Sewage 1998-A | 68,000,000 | 12/10/1998 | 4.512% | BMA (2) | (3,258,018) | 7/1/2023 | 7/1/2023 | Aa2/AA-/NR |
| Sewage 1998-B | 67,800,000 | 12/10/1998 | 4.512% | BMA | (3,260,270) | 7/1/2023 | 7/1/2023 | Aa2/AA-/NR |
| Water 2001-C (3) | 47,723,000 | 6/7/2001 | 4.070% | BMA | - | 1/1/2006 | 7/1/2029 | Aaa/AA+/NR |
| Water 2001-C (3) | 29,972,000 | 6/7/2001 | 4.695% | BMA | (1,214,171) | 7/1/2011 | 7/1/2029 | Aaa/AA+/NR |
| Water 2001-C (3) | 47,628,000 | 1/1/2006 | 5.415% | BMA | (3,490,184) | 7/1/2011 | 7/1/2029 | Aaa/AA+/NR |
| Water 2001-C | 114,150,000 | 6/7/2001 | 4.900% | BMA | (10,802,162) | 7/1/2026 | 7/1/2026 | Aa3/A+/AA- |
| Sewage 2001 C-1 | 156,500,000 | 10/23/2001 | 4.428% | BMA | (7,116,931) | 7/1/2027 | 7/1/2027 | Aa2/AA+/AAA |
| Sewage 2001 C-2 | 124,500,000 | 10/23/2001 | 4.468% | BMA | (6,565,848) | 7/1/2029 | 7/1/2029 | Aa2/AA+/AAA |
| Water 2003-B | 1,980,000 | 1/30/2003 | 3.020% | CPI + 1.01% | 57,777 | 7/1/2009 | 7/1/2009 | Aa3/A+/AA- |
| Water 2003-B | 2,290,000 | 1/30/2003 | 3.310% | CPI + 1.12% | 67,167 | 7/1/2010 | 7/1/2010 | Aa3/A+/AA- |
| Water 2003-B | 2,500,000 | 1/30/2003 | 3.550% | CPI + 1.25% | 74,359 | 7/1/2011 | 7/1/2011 | Aa3/A+/AA- |
| Water 2003-B | 2,175,000 | 1/30/2003 | 3.740% | CPI + 1.33% | 59,662 | 7/1/2012 | 7/1/2012 | Aa3/A+/AA- |
| Water 2003-B | 2,800,000 | 1/30/2003 | 3.870% | CPI + 1.34% | 66,848 | 7/1/2013 | 7/1/2013 | Aa3/A+/AA- |
| Water 2003-B | 2,505,000 | 1/30/2003 | 4.000% | CPI + 1.36% | 47,560 | 7/1/2014 | 7/1/2014 | Aa3/A+/AA- |
| Water 2003-C | 2,005,000 | 1/30/2003 | 3.870% | CPI + 1.34% | 47,885 | 7/1/2013 | 7/1/2013 | Aa3/A+/AA- |
| Water 2003-C | 2,330,000 | 1/30/2003 | 4.000% | CPI + 1.36% | 44,237 | 7/1/2014 | 7/1/2014 | Aa3/A+/AA- |
| Water 2003-D | 150,545,000 | 2/6/2003 | 4.060% | BMA | (3,674,234) | 7/1/2033 | 7/1/2033 | Aa2/AA-/NR |
| Sewage 2003-B (3) | 150,000,000 | 5/22/2003 | 4.137% | BMA | 1,924,401 | 7/1/2013 | 7/1/2033 | Aa2/AA+/AAA |
| Water 2004-A | 77,010,000 | 5/13/2004 | 3.940% | BMA | (903,397) | 7/1/2025 | 7/1/2025 | Aa2/AA-/NR |
| Water 2004-B | 163,590,000 | 5/13/2004 | 3.845% | BMA | (856,979) | 7/1/2023 | 7/1/2023 | Aa2/AA-/NR |
| Water 2005-B | 195,000,000 | 4/1/2005 | 4.710% | BMA | (6,703,870) | 7/2/2035 | 7/2/2035 | Aa3/A+/AA- |
| Water Forward Starting Swap | 120,000,000 | 3/1/2007 | 5.000% | BMA | (7,616,810) | 7/3/2036 | 7/3/2036 | Aa3/A+/AA- |
| Sewage Hedge Swap (3) | 125,000,000 | 9/1/2006 | 4.955% | BMA | (7,867,611) | 7/1/2036 | N/A | Aa2/AA+/AAA |
| Sewage Hedge Swap (3) | 56,250,000 | 3/1/2010 | 4.927% | BMA | (1,320,373) | 7/2/2039 | N/A | Aa3/A+/AA- |
| Sewage Hedge Swap (3) | 168,750,000 | 3/1/2010 | 4.927% | BMA | (4,141,786) | 7/3/2039 | N/A | Aa3/A+/AA- |
| Pension Obligation Certificates-GRS | 99,621,000 | 6/7/2006 | 4.991% | 3 MTH LIBOR + .34% | (183,936) | 6/15/2034 | 6/15/2034 | Aa3/A+/AA- |
| Pension Obligation Certificates-PFRS | 153,801,500 | 6/7/2006 | 4.991% | 3 MTH LIBOR + .34% | (198,071) | 6/15/2034 | 6/15/2034 | Aa3/A+/AA- |
| Pension Obligation Certificates-PFRS | 104,325,500 | 6/7/2006 | 4.991% | 3 MTH LIBOR + .30% | (121,365) | 6/15/2029 | 6/15/2029 | Aa3/A+/AA- |
| Pension Obligation Certificates-GRS | 42,252,000 | 6/7/2006 | 4.991% | 3 MTH LIBOR + .30% | (84,084) | 6/15/2029 | 6/15/2029 | Aa3/A+/AA- |
| Pension Obligation Certificates-PFRS | 153,801,500 | 6/7/2006 | 4.991% | 3 MTH LIBOR + .34% | (262,509) | 6/15/2034 | 6/15/2034 | Aaa/AAA/AAA |
| Pension Obligation Certificates-PFRS | 104,325,500 | 6/7/2006 | 4.991% | 3 MTH LIBOR + .30% | (181,680) | 6/15/2029 | 6/15/2029 | Aa2/AA+/AAA |
| Pension Obligation Certificates-PFRS | 99,621,000 | 6/7/2006 | 4.991% | 4 MTH LIBOR + .34% | (203,032) | 6/16/2029 | 6/16/2029 | Aa2/AA+/AAA |
| Pension Obligation Certificates-PFRS | 45,252,000 | 6/7/2006 | 4.991% | 5 MTH LIBOR + .30% | (93,205) | 6/17/2029 | 6/17/2029 | Aa2/AA+/AAA |

1. Notional amount balance as of June 30, 2006
2. The Bond Market Association Municipal Swap Index TM.
3. Denotes that the swap termination date does not match the final maturity of the financings.

Fair Value: Because interest rates have generally declined since the time the swaps were negotiated, many of the City's swaps have a negative fair value as of June 30, 2006. The negative fair values may be countered by lower total interest payments required under the variable-rate financing, creating lower synthetic interest rates.

Credit Risk: As of June 30, 2006, the City was not significantly exposed to net credit risk as the majority of the swaps had net negative fair values. However, should interest rates change and fair values of the swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' positive fair value.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require full collateralization of the fair value of the swap should the counterparty's credit rating fall below certain rating levels by Fitch Ratings, Standard & Poor's, and/or Moody's Investors Service. Collateral on all swaps is to be in the form of U.S. government securities held by a third-party custodian.

Basis Risk: The City is not exposed to significant basis risk on its swaps because most of the variable payments received are based on the BMA index. The CPI indexed swaps are associated with CPI indexed financings and thus create no basis risk. The LIBOR based swap has basis risk on \$28.3 million of swaps.

Termination Risk: The City or counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. In such cases, the City may owe or be due a termination payment depending on the value of the swap at that time. In addition, the City is exposed to termination risk, but not termination payments, on certain of the City's swaps related to Water Series 2001C, Water Series 2003D, Water Series 2004-A, Water Series 2004-B, Sewer Series 1998A, Sewer Series 1998B, Sewer Series 2001-C-1, Sewer Series 2001C-2 and Sewer Series 2003B. These swaps provide the counterparty with the option to terminate the swap agreement beginning on 1/1/2010, 7/2/2011, 7/1/2008, 7/1/2008, 1/1/2010, 1/1/2010, and 7/1/2013, respectively, upon the passing of certain BMA thresholds. If any of these swaps are terminated, the associated variable-rate financings would no longer carry synthetic interest rates, and there would be no termination payment.

Rollover Risk: The City is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated financings. When these swaps terminate, or in the case of the termination option, if the counterparty exercises its option, the City will not realize the synthetic rate offered by the swaps on the underlying issues. The City has this risk for three (3) Water Series 2001-C financing issues.

6. Other Information

Automobile Parking Fund

The City has covenanted in bond authorizing documents to charge for the use of and services provided by the City of Detroit Building Authority Parking Arena System (the System) for each fiscal year of the City such that the gross revenues collected and remitted to the trustee (1) will be at least sufficient to at all times pay when due the principal, interest, and sinking fund installments on the revenue bonds without recourse to the Debt Reserve Account, to pay or provide for all operating expenses, to maintain the System in good repair without recourse to the Operating and Contingency Reserve Fund, and to replenish the Debt Reserve Account (so as to satisfy the corresponding reserve requirement) and the Operating and Maintenance Reimbursement Fund, and (2) will, after replenishment of any deficit in the Debt Reserve Account, Operating and Contingency Reserve Fund, and the Operating and Maintenance Reimbursement Fund, be equal to or greater than 175% of the amount payable in such fiscal year as the principal of sinking fund installments for the interest on all revenue bonds, net of amounts capitalized for interest payable during the construction period.

The City has covenanted further that if the fees and charges collected in any fiscal year are not sufficient to produce such revenues, the City will employ a consulting expert to submit recommendations as to revision of the schedule of fees then in effect and the City will thereafter charge and collect fees in accordance with such recommendation. The schedule of charges for the System may not be revised for a period of two years unless (1) such revision is for purpose of complying with the aforesaid rate covenant or, simultaneous with such revision, there is filed with the trustee a certificate of the consulting expert stating the opinion that if such revision had been in effect during the whole of the fiscal year immediately prior thereto, the revenues collected during such fiscal year would not have been diminished, and (2) at the time of any reduction in charges, the amounts in the Debt Reserve Account and Operating and Contingency Reserve Fund equal or exceed the reserve requirements.

The revenue bond documents specify that additional bonds may be issued by the Fund for the purpose of financing additions, replacements, and improvements to the City of Detroit Building Authority Parking Arena System, provided that the trustee shall have received all legally required authorized opinions and certificates and that the estimated gross revenues (as defined in the bond authorizing documents) for the five years following completion of the facilities will be at least (1) 175% of annual debt service on all parity outstanding bonds, or (2) the sum of annual debt service on all parity outstanding bonds (including the Additional Bonds) plus the amount necessary to make all required payments to the various funds maintained by the trustee, whichever is greater. Other than as described above, the Parking Fund may not issue any obligations secured by gross revenues from the System unless any resulting lien on the System's gross revenues is expressly subordinate to liens for the bondholders' or bank's benefit as described above.

Sewage Disposal and Water Funds Construction Programs

The Sewage Disposal Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program (the Program). The total cost of this Program is anticipated to be approximately \$1.81 billion through fiscal year 2011. The Program is being financed primarily from revenues of the Fund and proceeds from the issuance of revenue bonds.

The total amount of construction contract commitments outstanding at June 30, 2006 was approximately \$356 million.

The Water Fund is engaged in a variety of projects that are a part of its five-year Capital Improvement Program (the Program). The total cost of this program is anticipated to be approximately \$1.68 billion through fiscal year 2010. The Program is being primarily financed from revenues of the Fund and proceeds from the issuance of revenue bonds.

The total amount of construction contract commitments outstanding at June 30, 2006 was approximately \$156 million.

Pension Plans:

The City of Detroit Retirement System consists of the General Retirement System (GRS) and the Policemen and Firemen Retirement System (PFRS). Each system is a single-employer plan composed of a Defined Benefit Plan and a Defined Contribution Annuity Plan. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The Systems issued publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained from City of Detroit Retirement Systems, 2 Woodward Avenue, Coleman A. Young Municipal Center, Room 908, and Detroit, Michigan 48226.

These plans are administered in accordance with the City Charter and union contracts, which assign the authority to establish and amend contributions and benefit provisions to each plan's Board of Trustees. The Systems' investment policies are governed in accordance with the State Public Act 314 of 1965, as amended.

The plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of each plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investments that do not have an established market are reported at estimated fair value.

The City's policy is to fund normal costs and amortization of prior service costs. The City is required to contribute at an actuarially determined rate. The current rate is up to 31.71% of active annual payroll for the General Retirement System (depending on the bargaining unit) with up to 13.64% being funded by the use of pension obligation certificate proceeds received during the prior year. The rate is 40.69% of active annual payroll for the Policemen and Firemen Retirement System with 12.81% being funded from the use of the pension obligation certificate proceeds received during the prior year. Contributions from City funds and the Detroit Public Library fund, including accounts receivable for the year ended June 30, 2006, amounted to \$84,071,346 and \$78,157,729 for the General Retirement System and the Policemen and Firemen Retirement System, respectively.

Employee contributions elections for annuity savings are as follows:

- **General Retirement System** — Employees may elect to contribute 3%, 5%, or 7% of the first \$90,000 representing the annual Social Security wage base (July 1 to December 30, 2005) and \$94,200 (January 1 to June 30, 2006) of annual FY 2006 compensation and 5% or 7 % of any excess over \$90,000 and \$94,200 respectively. Contributions are voluntary for all union and non-union employees.
- **Policemen and Firemen Retirement System** — Mandatory contributions are 5% of base compensation until eligibility for retirement is reached.

Contributions received from employees during the year ended June 30, 2006 amounted to \$20,462,296 and \$10,007,531 respectively.

The contribution requirements of plan members and the City are established and may be amended by the Board of Trustees in accordance with the City Charter, union contracts, and plan provisions.

Members may retire with full benefits after attaining 30 years of service; age 55 with 30 years of service if hired after January 1, 1996; age 60 with 10 years of service; or age 65 with 8 years of service. Employees may retire after 25 years of service and collect an actuarially reduced retirement benefit. Monthly pension benefits, which are subject to certain minimum and maximum amounts, are determined according to fixed rates per year of credited service.

Members of the General Retirement System who separated prior to July 1, 1981, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1981 are not required to leave their accumulated annuity contributions in the System. Pension benefits for all members of the GRS are increased annually by 2.25% of the original pension.

Police officers and firefighters hired prior to January 1, 1969 may retire after 25 years of service with full benefits and an escalator clause for future increases. Police officers and firefighters hired after January 1, 1969 may retire after 25 years of service with full benefits and a yearly cost-of-living adjustment of 2.25%. For those members of the PFRS who were hired after January 1, 1969, pension benefits are increased annually by 2.25% of the original pension. Police officers and firefighters hired before January 1, 1969 may elect at retirement increases based upon pay increases of active members or annual increases of 2.25% of the original pension.

Members of the Policemen and Firemen Retirement System who separated prior to July 1, 1982, met the age and service requirements, and who did not withdraw their accumulated annuity contributions are generally eligible for a pension at the time they would have been eligible had they continued in City employment. Members who separate after July 1, 1982 and meet the age and service requirements are able to withdraw their accumulated contributions and remain eligible for a benefit.

Employee contributions to both systems for annuity savings may be withdrawn upon separation from the City. At retirement, members have the option to withdraw all or part of their accumulated annuity contributions plus interest in either a lump sum or to receive monthly annuity payments. Employees in both systems may withdraw their annuity balance if they have accumulated 25 years of service. The following details the schedule of employer contributions (in millions):

| General Retirement System | | | | Policemen and Firemen Retirement System | | | |
|----------------------------------|-----------------------------|-------------------------------|--------------------------|--|-----------------------------|-------------------------------|--------------------------|
| Year Ended June 30 | Annual Pension Costs | Percentage Contributed | Net Pension Asset | Year Ended June 30 | Annual Pension Costs | Percentage Contributed | Net Pension Asset |
| 2004 | \$ 95.9 | 76% | \$ — | 2004 | \$ 69.5 | 100% | \$ — |
| 2005 | 106.4 | 754 | 695.6 | 2005 | 98.8 | 754 | 595.1 |
| 2006 | 74.5 | 120 | 678.9 | 2006 | 87.7 | 120 | 603.1 |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

The annual pension costs and net pension assets as of June 30, 2006 are as follows:

| | GRS | | | | | |
|--------------------------------------|----------------|----------------|--------------------------|--------------|----------------|------------------|
| | PFRS | Other | Business-type Activities | | | Total |
| | Governmental | Governmental | Transportation | Sewage | Water | Primary |
| | Activities | Activities | Fund | Disposal | Fund | Government |
| Annual required contributions (ARC) | \$ 64,986,630 | \$ 24,803,070 | \$ 6,393,660 | \$ 3,975,424 | \$ 10,457,713 | \$ 110,616,497 |
| Interest on net pension asset | (46,419,737) | (32,911,241) | (7,742,435) | (620,172) | (11,885,748) | (99,579,333) |
| Adjustment to ARC | 31,251,304 | 23,388,492 | 5,502,189 | 440,728 | 8,446,650 | 69,029,363 |
| Annual pension cost | 49,818,197 | 15,280,321 | 4,153,414 | 3,795,980 | 7,018,615 | 80,066,527 |
| Contributions made (employer) | 57,807,332 | 21,769,900 | 5,053,996 | 4,317,079 | 5,156,381 | 94,104,688 |
| Changes in net pension asset | 7,989,135 | 6,489,579 | 900,582 | 521,099 | (1,862,234) | 14,038,161 |
| Net pension asset, beginning of year | 595,124,828 | 416,597,988 | 98,005,506 | 7,850,281 | 150,452,508 | 1,268,031,111 |
| Net pension asset, end of year | \$ 603,113,963 | \$ 423,087,567 | \$ 98,906,088 | \$ 8,371,380 | \$ 148,590,274 | \$ 1,282,069,272 |

The annual pension costs and net pension assets of the Component Units of the City as of June 30, 2006 are as follows:

| | Detroit Public Library (GRS) |
|--|---------------------------------|
| Annual required contributions | \$ 1,732,248 |
| Interest on net pension asset | (1,789,630) |
| Adjustment to annual required contribution | 1,271,807 |
| Annual pension cost | 1,214,425 |
| Contributions made (employer) | 1,352,143 |
| Changes in net pension asset | 137,718 |
| Net pension asset, beginning of year | 22,653,538 |
| Net pension asset, end of year | \$ 22,791,256 |

| | Defined Benefit | | Defined Annuity Contributions | |
|---|-----------------|-------|----------------------------------|-------|
| | GRS | PFRS | GRS | PFRS |
| Retirees and beneficiaries receiving benefits | 11,474 | 8,575 | 1,496 | 1,236 |
| Terminated plan members entitled to but not yet receiving benefits | 2,844 | 24 | 1,202 | 27 |
| Active plan members | 9,496 | 4,342 | 8,403 | 4,050 |

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

Significant actuarial assumptions used in preparing the accompanying Systems' financial statements for the year ended June 30, 2006 are as follows:

| | General Retirement System | Policemen and Firemen Retirement System |
|--|--------------------------------------|--|
| Valuation Date (latest date available) | June 30, 2006 | June 30, 2006 |
| Actuarial Cost Method | Entry Age | Entry Age |
| Amortization Method | Level Percent | Level Percent |
| Remaining Amortization Period* | 30 years | 30 years closed |
| Asset Valuation Method | 3-year Smoothed Market | 3-year Smoothed Market |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 7.9% | 7.8% |
| Projected Salary Increases | 4.0% - 9.5% | 5.8% - 10.8% |
| Includes Inflation at | 4.0% | 4.8% |
| Cost-of-Living Adjustments | 2.25% | 2.25% |

*Amortization period was changed in FY 2006, see Footnote B.4.d

Factors that significantly affect the identification of trends in the amounts reported include, for example, changes in benefit provisions, the size or composition of the population covered by the plans, or the actuarial methods and assumptions used.

Investment loss presented in the statements of net assets in Fiduciary Funds for the Retirement Systems consist of interest income, dividend income, net appreciation/depreciation, and investment expenses. GRS and PFRS were unable to break down each component by reserve fund as required in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; however, the Systems were able to present components in total:

| | GRS | PFRS |
|------------------------------|-----------------------|-----------------------|
| Investment Gain, Net: | | |
| Interest and Dividend Income | \$ 125,575,445 | \$ 149,038,677 |
| Net Appreciation | 261,754,054 | 243,539,800 |
| Investment Expense | (14,548,181) | (14,475,755) |
| Other Income | 4,403,433 | 3,567,007 |
| Total | <u>\$ 377,184,751</u> | <u>\$ 381,669,729</u> |

Other Post-Employment Benefits: In addition to the pension benefits described above, the City provides other post-retirement benefits to its retirees, which include hospitalization, dental care, eye care, and life insurance. The number of City retirees at June 30, 2006 is 22,451. Costs are accounted for in accordance with GASB Statement No. 12, *Disclosures of Information on Post-retirement Benefits Other Than Pension Benefits by State and Local Governmental Employers*. The benefits are provided in accordance with the City Charter and union contracts. The costs of benefits, which are financed on a pay-as-you-go basis, for the year ended June 30, 2006, are as follows:

| Benefit | City Cost | Retiree Cost | Total Cost |
|-----------------|-----------------------|-------------------------|-----------------------|
| Hospitalization | \$ 139,306,757 | \$ 14,933,508 | \$ 154,240,265 |
| Dental | 6,160,524 | - | 6,160,524 |
| Eye Care | 1,969,690 | - | 1,969,690 |
| Life Insurance | 143,579 | 26,740 | 170,319 |
| Total | <u>\$ 147,580,550</u> | <u>\$ 14,960,248</u> | <u>\$ 162,540,798</u> |

Component Units

The GDRRA is authorized to charge user fees for services provided to residents in the event either the tipping fees or supplemental tipping fees paid by the City and other revenues generated are not sufficient in each operating year to produce revenues equal to at least 100% of the maximum annual debt service requirement, lease obligations, and operating costs. Supplemental tipping fees are provided from certain taxes collected by the State of Michigan, which are payable to the City

City of Detroit, Michigan
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

(Distributable Aid). The City's obligation to pay tipping fees and supplemental tipping fees is a full faith and credit limited tax general and unconditional obligation whether or not the facility is operating. For the year ended June 30, 2006, tipping fees and supplemental tipping fees paid by the City to the GDRRA are as follows:

| | |
|---------------------------|----------------------|
| Tipping Fees | \$ 63,098,833 |
| Supplemental Tipping Fees | <u>16,992,126</u> |
| Total | <u>\$ 80,090,959</u> |

NOTE IV. SUBSEQUENT EVENTS

On August 4, 2006 the Sewage Disposal System issued \$401,565,000 of Series 2006 bonds to finance a portion of the costs of the Sewage Disposal System repairs, extensions, capital improvements, refund certain prior outstanding bonds, purchase a debt service reserve surety to satisfy the reserve requirements attributable to the 2006 Bonds, fund capitalized interest and pay cost of issuance of the 2006 Bonds. These were comprised of \$125,000,000 of new issued bonds Revenue Second Lien Bonds (Variable Rate Demand) Series 2006(A), \$250,000,000 System Revenue Second Lien Bonds, Series 2006 (B) and, \$26,560,000 Revenue Refunding Senior Lien Bonds, Series 2006(C). The Series (A) bonds fully mature July 1, 2036. The Series (B) bonds have various maturity dates that begin to mature July 1, 2009 and will fully mature in the year 2036. The Series 2006 (C) begin to mature July 1, 2016 and will fully mature in the year 2018.

On August 14, 2006 the Water Supply System issued \$1,136,585,000 of Series 2006 bonds to finance a portion of the costs of the Water Supply System capital improvement program, refund certain prior outstanding bonds, fund reserve requirements and pay cost of issuance of the 2006 Bonds. These were comprised of: (1.) \$767,235,000 of new issued bonds (\$280,000,000 Revenue Senior Lien Bonds- Series 2006(A), \$120,000,000 System Revenue Second Lien Bonds (Variable Rate Demand), Series 2006 (B), \$220,645,000 Revenue Refunding Second Lien Bonds, Series 2006 (C), and, \$146,590,000 Revenue Refunding Senior Lien Bonds, Series 2006 (D)). The Series (A) bonds begin to mature July 1, 2007 and will fully mature in the year 2018. The Series (B) bonds mature July 1, 2036. The Series 2006 (C) and (D) both begin to mature July 1, 2007 and will fully mature in the years 2012 and 2013 respectively. (2.) \$142,755,000 of refunded fixed rate Revenue Senior Lien Bonds Series 2003(D). These were remarketed/converted on September 1, 2006 and begin maturing January 1, 2007. (3.) \$226,595,000 of Refunded Revenue Senior Lien Bonds, Series 2004(A) and (B). (\$72,765,000 Refunding Second Lien Bonds fixed rate Series 2004(A) and \$153,830,000 Refunding Senior Lien Bonds fixed rate Series 2004(B)). Both of the Series 2004 Bonds have a remarketing date of August 16, 2006.

In December 2006, the City issued \$370,000,000 Sewage Disposal System Revenue Refunding Bonds. \$351.6 million of previously issued debt was refunded, resulting in present value savings of \$28,057,410 or 7.98% of the refunded par amount. The bonds mature beginning July 1, 2007 and fully mature in the year 2032.

On July 28, 2007, the City issued \$ 45,910,000 of Revenue Anticipation Notes, Series 2007 and \$83,460,000 of Tax Anticipation Notes, Series 2007. The Revenue Anticipation Notes (RANS), Series 2007 were issued in anticipation of certain shared revenue payments the City expects to receive from the State of Michigan. The notes were issued to provide funds to pay necessary operating expenditures of the City for the current fiscal year ending June 30, 2007, and costs of the issuance of the notes. The RANS are secured by City Charter, statutory and constitutional tax levies on all applicable property. The Tax Anticipation Notes (TANS), Series 2007 were issued in anticipation of the collection of taxes to be collected in the next succeeding fiscal year ending June 30, 2008 and has irrevocably pledged in the Note Resolution to levy taxes. The TANS are secured by an irrevocable, direct pay letter of credit. The RANS and TANS mature March 1, 2008.

In September 2007, the Sewage Disposal System issued \$167,565,000 SRF Junior Lien Revenue Bonds. The bonds begin to mature October 1, 2010 and will fully mature in the year 2029.

The City's General Obligation, Water Supply System Revenue Refunding and Sewage Disposal System Revenue Bonds that are issued by the City are also insured with bond insurance coverage purchased through rated bond insurers. The bond insurance helps the City to obtain a lower cost of borrowing. As of February 20, 2008 the major rating agencies downgraded one of the City's bond insurers. The rating of the City's bonds that are insured by the downgraded bond insurer has not been affected.

**REQUIRED
SUPPLEMENTARY
INFORMATION
OTHER THAN
MANAGEMENT'S
DISCUSSION &
ANALYSIS
(MD&A)

GENERAL FUND

STATEMENT OF REVENUES
AND EXPENDITURES

-BUDGET TO ACTUAL**

NOTES TO BUDGET TO ACTUAL COMPARISON

Budgeting Policy:

The City's annual budget constitutes a financial plan for the next fiscal year, which is required to set forth estimated revenues from all sources and all appropriations. Proposed capital appropriations are included in separate sections of the budget. Any surplus or deficit during the preceding year is entered into the budget for the next fiscal year as either revenue (surplus) or appropriation (deficit), in accordance with the City Charter. The total of proposed expenditures cannot exceed the total of estimated revenues, so that the budget as submitted is a balanced budget. Budgets are prepared for all agencies of the City.

Budgetary Compliance:

On or before April 12 each year, the Mayor submits to the City Council a proposed annual budget for the next fiscal year. A public hearing in the manner provided by law or ordinance is held on the proposed budget before adoption. After the public hearing, the City Council adopts the budget with or without amendment. Consideration of the budget is completed by the City Council no later than May 24. If the Mayor disapproves of amendments made by the City Council, the Mayor, within seven days, submits to the City Council in writing the reasons for the disapproval. The City Council proceeds to reconsider any budget item so disapproved. If, after reconsideration, a two-thirds majority of the City Council serving agrees to sustain any of the City Council's amendments to the budget, those amendments so sustained are of full force and effect. The City Council's reconsideration of the budget must be concluded within three business days after receipt of the Mayor's disapproval.

The adoption of the budget provides for: (1) appropriations of specific amounts from funds indicated, (2) a specific levy of property tax, and (3) provision for the issuance of bonds specified in the capital program. The budget as adopted becomes the basis for establishing revenues and expenditures for the fiscal year. The appropriations for the functions of each City department are fixed. Expenditures may not exceed the original appropriations without City Council approval. If during the fiscal year the Mayor advises the City Council that there are available appropriations and revenues in excess of those estimated in the budget, the City Council may make supplemental appropriations for the year up to the amount of the excess. In the case of estimated revenue shortfalls, the Mayor may request that the City Council decrease certain appropriations. In any case, the Mayor is under no obligation to spend an entire appropriation. Also, at any time during the fiscal year, the City Council, upon written request by the Mayor, may transfer all or part of any unencumbered appropriation balance among programs, services, or activities within an agency or from one agency to another.

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES — BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|---|------------------|----------------|----------------|------------------------------|
| | Original | Final | Amounts | Positive(Negative) Budget |
| REVENUES: | | | | |
| Taxes, Assessments, Interest and Penalties: | | | | |
| Property Taxes..... | \$ 188,169,564 | \$ 188,169,564 | \$ 185,318,391 | \$ (2,851,173) |
| Municipal Income Tax..... | 275,094,486 | 275,094,486 | 284,111,220 | 9,016,734 |
| Utility Users' Tax..... | 49,700,000 | 56,000,000 | 60,019,626 | 4,019,626 |
| Wagering Taxes..... | 153,000,000 | 156,300,000 | 156,588,917 | 288,917 |
| Other Taxes and Assessments..... | 10,958,232 | 11,958,232 | 11,312,655 | (645,577) |
| Interest and Penalties on Taxes..... | 11,250,000 | 11,250,000 | 9,181,155 | (2,068,845) |
| Total Taxes, Assessments, Interest and Penalties..... | 688,172,282 | 698,772,282 | 706,531,964 | 7,759,682 |
| Licenses, Permits and Inspection Charges: | | | | |
| Business Licenses..... | 1,880,000 | 1,880,000 | 2,333,291 | 453,291 |
| Permits..... | 2,105,414 | 2,105,414 | 1,396,010 | (709,404) |
| Inspection Charges..... | 11,295,402 | 11,295,402 | 3,318,257 | (7,977,145) |
| Other Licenses..... | 81,157 | 81,157 | 93,768 | 12,611 |
| Total Licenses, Permits and Inspection Charges..... | 15,361,973 | 15,361,973 | 7,141,326 | (8,220,647) |
| Shared Taxes: | | | | |
| Liquor and Beer Licenses..... | 545,000 | 545,000 | 593,011 | 48,011 |
| State Shared Tax..... | 283,518,855 | 283,518,855 | 279,467,063 | (4,051,792) |
| Other Shared Tax..... | 796,928 | 796,928 | 758,147 | (38,781) |
| Total Shared Taxes..... | 284,860,783 | 284,860,783 | 280,818,221 | (4,042,562) |
| Intergovernmental: | | | | |
| Federal..... | 12,981,913 | 127,043,668 | 9,399,170 | (117,644,498) |
| State..... | 49,439,848 | 125,012,462 | 61,168,848 | (63,843,614) |
| Other Grants..... | 1,419,927 | 26,930,231 | 7,072,108 | (19,858,123) |
| Total Grants..... | 63,841,688 | 278,986,361 | 77,640,126 | (201,346,235) |
| Sales and Charges for Services: | | | | |
| Maintenance and Construction..... | 910,359 | 910,359 | (3,261,048) | (4,171,407) |
| Other Labor and Materials..... | 5,500 | 5,500 | 449,746 | 444,246 |
| Electrical..... | 45,105,000 | 45,105,000 | 43,493,992 | (1,611,008) |
| Steam..... | 770,000 | 770,000 | 487,660 | (282,340) |
| Sanitation Charges..... | 81,408 | 81,408 | 876,339 | 794,931 |
| Recreation Fees..... | 6,946,616 | 6,946,616 | 4,526,024 | (2,420,592) |
| Collection Fees..... | 8,486,000 | 8,516,000 | 6,861,997 | (1,654,003) |
| Other Fees..... | 44,649,382 | 45,128,088 | 48,821,439 | 3,693,351 |
| Personal Services..... | 59,729,888 | 59,408,432 | 60,165,554 | 757,122 |
| Other Departmental Sales..... | 29,305,870 | 31,389,357 | 21,987,452 | (9,401,905) |
| Total Sales and Charges for Services..... | 195,990,023 | 198,260,760 | 184,409,155 | (13,851,605) |
| Ordinance Fines..... | 28,055,135 | 28,055,135 | 19,098,767 | (8,956,368) |
| Revenue from Use of Assets: | | | | |
| Earnings on Investments..... | 1,280,000 | 3,630,164 | 6,049,157 | 2,418,993 |
| Real Estate Rentals..... | 8,473,249 | 8,707,111 | 6,226,459 | (2,480,652) |
| Concessions..... | 5,364,644 | 5,364,644 | 3,375,553 | (1,989,091) |
| Sale of Real Property..... | 40,000,000 | 40,000,000 | 11,006,843 | (28,993,157) |
| Total Revenue from Use of Assets..... | 55,117,893 | 57,701,919 | 26,658,012 | (31,043,907) |
| Other Revenue..... | 115,499,486 | 154,283,080 | 98,574,416 | (55,708,664) |
| Total Revenues..... | 1,446,899,263 | 1,716,282,293 | 1,400,871,987 | (315,410,306) |

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|---|------------------|-------------|-------------|--------------------|
| | Original | Final | Amounts | Positive(Negative) |
| | | | | Budget |
| EXPENDITURES: | | | | |
| Public Protection: | | | | |
| Consumer Affairs..... | 1,054,989 | 1,056,099 | 1,016,651 | 39,448 |
| Fire..... | 162,870,431 | 171,796,828 | 187,109,221 | (15,312,393) |
| Human Rights..... | 812,897 | 885,348 | 957,630 | (72,282) |
| Ombudsperson..... | 818,870 | 817,146 | 1,003,201 | (186,055) |
| Parking Enforcement..... | 9,456,557 | 8,873,176 | 8,172,461 | 700,715 |
| Police..... | 342,560,100 | 385,559,654 | 414,969,673 | (29,410,019) |
| Detroit Office of Homeland Security..... | - | 7,072,530 | 836,470 | 6,236,060 |
| 36th District Court..... | 42,958,202 | 41,687,732 | 44,769,885 | (3,082,153) |
| Total Public Protection..... | 560,532,046 | 617,748,513 | 658,835,192 | (41,086,679) |
| Department of Health..... | 89,846,258 | 75,233,774 | 96,237,548 | (21,003,774) |
| Recreation and Culture: | | | | |
| Culture, Arts and Tourism..... | - | 1,066,075 | 485,587 | 580,488 |
| Historical..... | 2,036,181 | 2,495,699 | 2,105,816 | 389,883 |
| Recreation..... | 33,083,296 | 45,183,424 | 41,256,805 | 3,926,619 |
| Senior Citizens..... | 1,384,049 | 2,303,060 | 1,130,795 | 1,172,265 |
| Zoological Institute..... | 11,250,584 | 11,894,014 | 10,411,713 | 1,482,301 |
| Total Recreation and Culture..... | 47,754,110 | 62,942,272 | 55,390,716 | 7,551,556 |
| Economic Development — Civic Center..... | 21,943,715 | 18,489,879 | 25,195,279 | (6,705,400) |
| Housing Supply and Conditions: | | | | |
| Planning and Development..... | 7,762,803 | 18,848,159 | 11,935,708 | 6,912,451 |
| Total Housing Supply and Conditions..... | 7,762,803 | 18,848,159 | 11,935,708 | 6,912,451 |
| Physical Environment: | | | | |
| Environmental Affairs..... | 1,951,726 | 4,076,156 | 3,151,556 | 924,600 |
| Public Lighting..... | 67,487,350 | 70,186,659 | 77,395,143 | (7,208,484) |
| Public Works..... | 125,372,593 | 133,808,245 | 139,661,984 | (5,853,739) |
| Total Physical Environment..... | 194,811,669 | 208,071,060 | 220,208,683 | (12,137,623) |
| Development and Management: | | | | |
| Auditor General..... | 2,357,775 | 2,466,785 | 2,046,848 | 419,937 |
| Budget..... | 2,684,088 | 2,788,172 | 2,582,347 | 205,825 |
| City Clerk..... | 3,676,246 | 3,994,375 | 3,848,735 | 145,640 |
| City Council..... | 12,677,672 | 13,449,703 | 11,858,000 | 1,591,703 |
| Communications and Creative Services..... | - | (6,643) | 39,586 | (46,229) |
| Elections..... | 10,166,131 | 10,513,026 | 9,958,546 | 554,480 |
| Finance..... | 34,568,613 | 36,795,348 | 30,029,179 | 6,766,169 |
| Law..... | 18,226,547 | 19,804,812 | 23,603,009 | (3,798,197) |
| Mayor's Office..... | 6,372,540 | 7,434,564 | 7,045,531 | 389,033 |
| Human Resources..... | 22,510,186 | 22,812,046 | 19,909,116 | 2,902,930 |
| Information Technology Services..... | 23,944,504 | 29,484,254 | 22,479,024 | 7,005,230 |
| Board of Zoning Appeals..... | 706,709 | 772,157 | 726,372 | 45,785 |
| Detroit Workforce Development Department..... | 2,000 | 606,154 | - | 606,154 |
| Administrative Hearings..... | 2,535,851 | 3,577,443 | 1,560,916 | 2,016,527 |
| Non Departmental..... | 421,754,716 | 314,710,650 | 97,485,628 | 217,225,022 |
| Total Development and Management..... | 562,183,578 | 469,202,846 | 233,172,837 | 236,030,009 |
| Capital Outlay..... | - | 81,083,058 | 86,847,848 | (5,764,790) |

(Continued)

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE — BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|--|-------------------------|---------------|------------------|---------------------------|
| | Original | Final | Amounts | Positive(Negative) |
| | | | | Budget |
| Debt Service: | | | | |
| Principal | - | 62,220,305 | 16,645,788 | 45,574,517 |
| Interest on Bonded Debt..... | - | 17,248,390 | 5,611,618 | 11,636,772 |
| Bond Issuance Costs..... | - | 64,000 | - | 64,000 |
| Total Debt Service..... | - | 79,532,695 | 22,257,406 | 57,275,289 |
| Total Expenditures..... | 1,484,834,179 | 1,631,152,256 | 1,410,081,217 | 221,071,039 |
| Excess (Deficiency) of Revenues Over (Under) | | | | |
| Expenditures..... | (37,934,916) | 85,130,037 | (9,209,230) | (94,339,267) |
| OTHER FINANCING SOURCES USES: | | | | |
| Sources: | | | | |
| Transfers from Other Funds: | | | | |
| Transfers In..... | 16,055,980 | 53,116,223 | 50,245,611 | (2,870,612) |
| Proceeds of Capital Leases..... | 25,000,000 | - | 34,892,659 | 34,892,659 |
| Total Other Financing Sources..... | 41,055,980 | 53,116,223 | 85,138,270 | 32,022,047 |
| Uses: | | | | |
| Transfers to Other Funds: | | | | |
| Transfers Out..... | 3,121,064 | 124,963,544 | 139,415,704 | (14,452,160) |
| Interest on Other Indebtedness..... | - | 13,282,716 | - | 13,282,716 |
| Total Other Financing Uses..... | 3,121,064 | 138,246,260 | 139,415,704 | (1,169,444) |
| Total Other Financing Sources (Uses)..... | 37,934,916 | (85,130,037) | (54,277,434) | 30,852,603 |
| Net Change in Fund Balances..... | - | - | (63,486,664) | (63,486,664) |
| Fund Balance at Beginning of Year..... | - | - | (33,594,434) | (33,594,434) |
| Increase (Decrease) in Inventories | - | - | (10,094,990) | (10,094,990) |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ (107,176,088) | \$ (107,176,088) |

(Continued)

See accompanying notes to required supplementary information

**REQUIRED
SUPPLEMENTAL
INFORMATION
OTHER THAN MD&A
-PENSION SCHEDULES
(UNAUDITED)**

**REQUIRED SUPPLEMENTAL INFORMATION
HISTORIC PENSION DATA - UNAUDITED**

Schedule of Employer Contributions (In millions):

| <u>General Retirement System</u> | | | | <u>Policemen and Firemen Retirement System</u> | | | |
|---|--|-----------------------------------|----------------------------------|---|--|-----------------------------------|----------------------------------|
| Year Ended June 30 | Annual Required Contributions | Percentage Contributed | Net Pension Asset | Year Ended June 30 | Annual Required Contributions | Percentage Contributed | Net Pension Asset |
| 2001 | \$68.1 | 100% | N/A | 2001 | \$14.4 | 100% | N/A |
| 2002 | 67.8 | 100 | N/A | 2002 | 8.4 | 100 | N/A |
| 2003 | 72.9 | 100 | N/A | 2003 | 66.8 | 100 | N/A |
| 2004 | 95.9 | 100 | N/A | 2004 | 69.5 | 100 | N/A |
| 2005 | 106.4 | 754 | \$695.6 | 2005 | 98.8 | 702 | \$595.1 |
| 2006 | 75.5 | 120 | 679.0 | 2006 | 94.8 | 100 | 603.1 |

Schedule of Funding Progress (In millions):

General Retirement System:

| Actuarial Valuation Date June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Funded Ratio | Unfunded AAL (UAAL) | Covered Payroll | UAAL as a Percentage of Payroll |
|---|--|--|-------------------------|------------------------------------|----------------------------|--|
| 2001 (a) (b) | \$2,912.1 | \$3,179.6 | 91.6% | \$267.5 | \$439.6 | 60.8% |
| 2002 | 2,761.2 | 3,276.6 | 84.3 | 515.4 | 440.7 | 117.0 |
| 2003 | 2,537.7 | 3,270.6 | 77.6 | 733.0 | 448.6 | 163.4 |
| 2004 | 2,470.2 | 3,383.9 | 73.0 | 913.7 | 444.6 | 205.5 |
| 2005 | 3,222.4 | 3,347.4 | 96.3 | 125.0 | 390.6 | 32.0 |

Policemen and Firemen Retirement System:

| Actuarial Valuation Date June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Funded Ratio | Unfunded AAL (UAAL) | Covered Payroll | UAAL as a Percentage of Payroll |
|---|--|--|-------------------------|------------------------------------|----------------------------|--|
| 2001 (a) (b) | \$3,900.0 | \$3,463.2 | 112.6% | \$(436.8) | \$253.3 | - |
| 2002 (a) | 3,635.1 | 3,523.4 | 103.2 | (111.7) | 248.7 | - |
| 2003 | 3,205.5 | 3,721.6 | 86.1 | 516.1 | 248.7 | 207.5% |
| 2004 | 3,074.5 | 3,857.5 | 79.7 | 783.0 | 258.7 | 302.7 |
| 2005 | 3,757.9 | 3,780.4 | 99.0 | 22.6 | 250.5 | 9.0 |

a) After changes in actuarial assumptions.

b) Plan amended.

See accompanying independent auditors' report.

COMBINING
NON-MAJOR
GOVERNMENTAL
FUNDS
FINANCIAL STATEMENTS

SPECIAL REVENUE FUNDS

ARE ESTABLISHED TO ACCOUNT FOR THE PROCEEDS OF SPECIFIC REVENUE SOURCES
(OTHER THAN CERTAIN MAJOR CAPITAL FACILITIES) THAT ARE RESTRICTED BY LAW
AND ADMINISTRATIVE ACTION TO EXPENDITURES FOR SPECIFIED PURPOSES

| | |
|---|--|
| Community Development Block Grant Funds | To account for activities financed by Federal Government Grants under Title I of the Housing and Community Development Act of 1974. |
| Construction Code Fund | In accordance with State of Michigan Public Act No. 245 of 1999, to account for financing activities related to the acts and services performed by the Building and Safety Fund including, without limitation, issuance of building permits, examination of plans and specifications, inspection of construction undertaken pursuant to a building permit, the issuance of certificates of use and occupancy, and hearing appeals in accordance with this act. |
| Detroit Building Authority Fund | To account for financing activities associated with acquiring, improving, operating and maintaining buildings and other structures for public purposes. |
| Drug Law Enforcement Fund | To account for forfeited narcotics proceeds that are used for the enhancement of narcotics enforcement. |
| Empowerment Zone Fund | To account for activities financed by Federal Government Grants under provision of Section 2007 of Title XX of the Social Security Act as amended. |
| Detroit Workforce Development Department | To account for employment and training program grants received from government sources. |
| Human Services Fund | To account for Federal and State Grant revenues that are used to finance certain social service programs. |
| Major and Local Street Funds | To account for Michigan State Gas and Weight Tax revenues and other related grants used for the construction and maintenance of major and local streets. |
| Supportive Housing Programs and Homeless Initiatives Funds | To account for financing activities of Supportive Housing Programs for the Homeless received from the Federal Government. |
| Targeted Business Development Fund | To account for revenues received via the casino development agreements earmarked to foster the presence of minority businesses in the City. |

CAPITAL PROJECTS FUNDS

CAPITAL PROJECTS FUNDS ARE ESTABLISHED TO ACCOUNT FOR FINANCIAL RESOURCES TO BE USED FOR THE ACQUISITION OR CONSTRUCTION OF MAJOR CAPITAL FACILITIES (OTHER THAN THOSE FINANCED BY SPECIAL REVENUE FUNDS AND PROPRIETARY FUNDS)

| | |
|------------------------------|--|
| Capital Projects Fund | To account for all funds used for the construction, acquisition and renovation of Capital facilities by the General Fund. |
| Urban Renewal Fund | To account for funding received from the City of Detroit and the Federal Government earmarked for the acquisition and site preparation of property for future development. |

DEBT SERVICE FUND

DEBT SERVICE FUND IS ESTABLISHED TO ACCOUNT FOR THE ACCUMULATION OF RESOURCES FOR THE PAYMENT OF DEBT AND PRINCIPAL AND INTEREST OF CERTAIN PROPRIETARY FUNDS' GENERAL OBLIGATIONS

PERMANENT FUNDS

ACCOUNT FOR PRINCIPAL TRUST AMOUNTS RECEIVED AND RELATED INTEREST INCOME. THE INTEREST PORTION OF THE TRUST IS USED TO MAINTAIN THE COMMUNITY CEMETERY.

**PERPETUAL CARE — BEQUEST FUND
TO ACCOUNT FOR INCOME AND DISBURSEMENTS OF BEQUESTS
ACCEPTED BY THE CITY.**

City of Detroit, Michigan
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2006

| | Special Revenue Funds | Debt Service Fund | Capital Projects Funds | Permanent Funds and Bequest Funds | Total |
|---|-----------------------------|-------------------------|------------------------------|--|----------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash..... | \$ 19,734,371 | \$ 9,607 | \$ 5,333,047 | \$ 56,566 | \$ 25,133,591 |
| Investments..... | 86,561,697 | 1,942,508 | 120,157,605 | 1,141,139 | 209,802,949 |
| Accounts and Contracts Receivable: | | | | | |
| Due from Other Funds..... | 6,028,185 | - | 4,192,133 | - | 10,220,318 |
| Due from Other Governmental Agencies..... | 30,371,197 | - | 745,103 | - | 31,116,300 |
| General Taxes Receivable on Real and Personal Property (Net)..... | - | 23,257,015 | - | - | 23,257,015 |
| Other Receivables..... | 887,914 | - | 935,116 | - | 1,823,030 |
| Total Accounts and Contracts Receivable..... | 37,287,296 | 23,257,015 | 5,872,352 | - | 66,416,663 |
| Allowance for Uncollectible Accounts..... | (259,123) | (25,532,018) | (947,420) | - | (26,738,561) |
| Total Accounts and Contracts Receivable - Net..... | 37,028,173 | (2,275,003) | 4,924,932 | - | 39,678,102 |
| Taxes, Interest and Penalties—Net..... | - | 2,275,000 | - | - | 2,275,000 |
| Current Special Assessments Receivable..... | - | - | 342,173 | - | 342,173 |
| Prepaid Expenditures..... | 127,636 | - | - | - | 127,636 |
| Inventory—Forfeited Property..... | 290,198 | - | - | - | 290,198 |
| Other Inventory..... | 539,756 | - | - | - | 539,756 |
| Total Current Assets..... | 144,281,831 | 1,952,112 | 130,757,757 | 1,197,705 | 278,189,405 |
| Restricted Assets: | | | | | |
| Cash..... | 1,031,968 | 30,979,989 | 16,408,950 | 103,786 | 48,524,693 |
| Total Assets..... | \$ 145,313,799 | \$ 32,932,101 | \$ 147,166,707 | \$ 1,301,491 | \$ 326,714,098 |
| Liabilities And Fund Balances: | | | | | |
| Accounts and Contracts Payable..... | \$ 17,343,972 | \$ - | \$ 9,674,001 | \$ - | \$ 27,017,973 |
| Due to Other Funds..... | 19,760,389 | 2,987,170 | 1,840,697 | - | 24,588,256 |
| Advances from Other Funds..... | 145,674 | - | 850,000 | - | 995,674 |
| Due to Other Governmental Agencies..... | 2,659,746 | - | - | - | 2,659,746 |
| Deposits from Vendors and Customers..... | 2,847,639 | - | - | - | 2,847,639 |
| Accrued Salaries and Wages Payable..... | 771,434 | - | - | - | 771,434 |
| Accrued Liabilities..... | 7,625,213 | - | - | - | 7,625,213 |
| Other Liabilities..... | 2,260,981 | - | 105,284 | 9,922 | 2,376,187 |
| Deferred Revenue..... | - | 2,145,000 | 262,864 | - | 2,407,864 |
| Total Liabilities..... | 53,415,048 | 5,132,170 | 12,732,846 | 9,922 | 71,289,986 |
| Fund Balances: | | | | | |
| Reserved for Inventory..... | 829,954 | - | - | - | 829,954 |
| Reserved for Encumbrances..... | 13,827,711 | - | - | - | 13,827,711 |
| Reserved for Endowments and Trusts..... | - | - | - | 1,291,569 | 1,291,569 |
| Reserved for Debt Service..... | - | 27,799,931 | - | - | 27,799,931 |
| Reserved for Capital Projects..... | - | - | 134,433,861 | - | 134,433,861 |
| Undesignated..... | 77,241,086 | - | - | - | 77,241,086 |
| Total Fund Balances..... | 91,898,751 | 27,799,931 | 134,433,861 | 1,291,569 | 255,424,112 |
| Total Liabilities and Fund Balances..... | \$ 145,313,799 | \$ 32,932,101 | \$ 147,166,707 | \$ 1,301,491 | \$ 326,714,098 |

See accompanying independent auditors' report

City of Detroit, Michigan
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

| | Special Revenue Funds | Debt Service Fund | Capital Projects Funds | Permanent Funds Bequest Funds | Total |
|---|-----------------------------|-------------------------|------------------------------|--|----------------|
| REVENUES: | | | | | |
| Taxes: | | | | | |
| Property Taxes..... | \$ - | \$ 58,303,541 | \$ - | \$ - | \$ 58,303,541 |
| Other Taxes and Assessments..... | - | 2,270,766 | - | - | 2,270,766 |
| State Hotel and Liquor Tax..... | - | 16,287,676 | - | - | 16,287,676 |
| Licenses, Permits and Inspection Charges..... | 27,092,666 | - | - | - | 27,092,666 |
| Intergovernmental: | | | | | |
| Federal..... | 187,330,833 | - | 21,389,142 | - | 208,719,975 |
| State..... | 14,605,682 | - | - | - | 14,605,682 |
| Other..... | 18,120,276 | - | - | - | 18,120,276 |
| Gas and Weight Tax..... | 62,804,995 | - | - | - | 62,804,995 |
| Sales and Charges for Services..... | 4,844,273 | - | - | - | 4,844,273 |
| Ordinance Fines..... | 2,426,490 | - | - | - | 2,426,490 |
| Revenue from Use of Assets..... | - | 2,171,990 | - | - | 2,171,990 |
| Earnings on Investments..... | 2,040,953 | 1,800,873 | 8,278,323 | 38,646 | 12,158,795 |
| Other Revenue..... | 6,685,552 | 1,929 | 874,832 | - | 7,562,313 |
| Total Revenues..... | 325,951,720 | 80,836,775 | 30,542,297 | 38,646 | 437,369,438 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Public Protection..... | 28,416,222 | - | - | - | 28,416,222 |
| Health..... | 81,484,973 | - | - | 700 | 81,485,673 |
| Recreation and Culture..... | - | - | - | - | - |
| Economic Development..... | 58,304,192 | 4,924,801 | - | - | 63,228,993 |
| Educational Development..... | 64,427,129 | - | - | - | 64,427,129 |
| Housing and Conditions..... | 2,850,753 | - | - | - | 2,850,753 |
| Transportation..... | 79,343,398 | - | - | - | 79,343,398 |
| Debt Service: | | | | | |
| Principal..... | - | 71,504,576 | - | - | 71,504,576 |
| Interest..... | - | 48,140,062 | - | - | 48,140,062 |
| Bond Issuance Costs..... | - | - | 2,200,024 | - | 2,200,024 |
| Capital Outlay..... | - | - | 88,321,818 | - | 88,321,818 |
| Total Expenditures..... | 314,826,667 | 124,569,439 | 90,521,842 | 700 | 529,918,648 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures.... | 11,125,053 | (43,732,664) | (59,979,545) | 37,946 | (92,549,210) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Sources: | | | | | |
| Transfers In: | | | | | |
| General Fund..... | 3,440,459 | 39,640,692 | - | - | 43,081,151 |
| Special Revenue Funds..... | 10,000,000 | 2,830,499 | - | - | 12,830,499 |
| Total Transfers In..... | 13,440,459 | 42,471,191 | - | - | 55,911,650 |
| Proceeds of Section 108 Federal Note..... | - | - | 1,800,000 | - | 1,800,000 |
| Proceeds from Capital Related Debt Issuance..... | - | - | 81,903,071 | - | 81,903,071 |
| Premium on General Obligation Bonds Issued..... | - | - | 3,778,114 | - | 3,778,114 |
| Total Other Financing Sources..... | 13,440,459 | 42,471,191 | 87,481,185 | - | 143,392,835 |
| Uses: | | | | | |
| Transfers Out: | | | | | |
| General Fund..... | 11,581,408 | - | 1,199,500 | - | 12,780,908 |
| Debt Service Fund..... | 2,830,500 | - | - | - | 2,830,500 |
| Special Revenue Funds..... | 10,000,000 | - | - | - | 10,000,000 |
| Total Transfers Out..... | 24,411,908 | - | 1,199,500 | - | 25,611,408 |
| Principal Paid to Bond Agent for Refunded Bonds..... | - | - | 29,940,000 | - | 29,940,000 |
| Interest Paid to Bond Agent for Refunded Bonds..... | - | - | 1,741,161 | - | 1,741,161 |
| Total Other Financing Uses..... | 24,411,908 | - | 32,880,661 | - | 57,292,569 |
| Total Other Financing Sources (Uses)..... | (10,971,449) | 42,471,191 | 54,600,524 | - | 86,100,266 |
| Net Change in Fund Balances..... | 153,604 | (1,261,473) | (5,379,021) | 37,946 | (6,448,944) |
| Fund Balances at Beginning of Year..... | 91,843,277 | 29,061,404 | 139,812,882 | 1,253,623 | 261,971,186 |
| Decrease in Inventories..... | (98,130) | - | - | - | (98,130) |
| Fund Balances at End of Year..... | \$ 91,898,751 | \$ 27,799,931 | \$ 134,433,861 | \$ 1,291,569 | \$ 255,424,112 |

See accompanying independent auditors' report

City of Detroit, Michigan
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
June 30, 2006

| ASSETS | Community Development Block Grant Funds | Construction Code Fund | Detroit Building Authority Fund | Drug Law Enforcement Fund | Empowerment Zone Fund |
|--|--|------------------------------|--|---------------------------------|-----------------------------|
| Current Assets: | | | | | |
| Cash..... | \$ 2,238,449 | \$ 2,556,563 | \$ 2,574,156 | \$ 421,677 | \$ 680,252 |
| Investments..... | - | - | - | 16,561,697 | - |
| Accounts and Contracts Receivable: | | | | | |
| Due from Other Funds..... | 1,827,264 | 195,185 | 3,156,870 | - | - |
| Due from Other Governmental Agencies... | 6,510,621 | 60,699 | - | - | 4,684,226 |
| Other Receivables..... | 41,782 | 799,082 | - | - | - |
| Total Accounts and Contracts Receivable..... | 8,379,667 | 1,054,966 | 3,156,870 | - | 4,684,226 |
| Allowance for Uncollectible Accounts..... | (31,089) | (182,310) | - | - | - |
| Total Accounts and Contracts Receivable-Net..... | 8,348,578 | 872,656 | 3,156,870 | - | 4,684,226 |
| Prepaid Expenditures..... | - | - | - | - | - |
| Inventory—Forfeited Property..... | - | - | - | 290,198 | - |
| Other Inventory..... | - | 35,490 | - | - | - |
| Total Current Assets..... | 10,587,027 | 3,464,709 | 5,731,026 | 17,273,572 | 5,364,478 |
| Restricted Assets: | | | | | |
| Cash..... | 1,031,968 | - | - | - | - |
| Total Assets..... | <u>\$ 11,618,995</u> | <u>\$ 3,464,709</u> | <u>\$ 5,731,026</u> | <u>\$ 17,273,572</u> | <u>\$ 5,364,478</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts and Contracts Payable..... | \$ 1,437,539 | \$ 22,217 | \$ 17,004 | \$ 119,210 | \$ - |
| Due to Other Funds..... | 6,839,697 | 2,602,210 | 588,804 | 32,610 | 910,041 |
| Advances from Other Funds..... | - | - | - | - | - |
| Due to Other Governmental Agencies..... | - | - | - | - | - |
| Deposits from Vendors and Customers..... | - | 5,116 | - | 2,842,523 | - |
| Accrued Salaries and Wages Payable..... | 177,596 | 229,263 | - | 22,530 | 23,538 |
| Accrued Liabilities..... | 1,100,336 | 158,967 | 249,881 | 221,736 | 4,430,899 |
| Other Liabilities..... | 2,063,827 | 197,154 | - | - | - |
| Total Liabilities..... | 11,618,995 | 3,214,927 | 855,689 | 3,238,609 | 5,364,478 |
| Fund Balances: | | | | | |
| Reserved for Inventory..... | - | 35,490 | - | 290,198 | - |
| Reserved for Encumbrances..... | - | 82,946 | - | 13,744,765 | - |
| Undesignated..... | - | 131,346 | 4,875,337 | - | - |
| Total Fund Balances..... | - | 249,782 | 4,875,337 | 14,034,963 | - |
| Total Liabilities and Fund Balances.. | <u>\$ 11,618,995</u> | <u>\$ 3,464,709</u> | <u>\$ 5,731,026</u> | <u>\$ 17,273,572</u> | <u>\$ 5,364,478</u> |

See accompanying independent auditors' report

| Detroit Workforce Development Fund | Human Services Fund | Street Funds | Supportive Housing Programs and Homeless Initiatives Funds | Targeted Business Development Fund | Total |
|---|------------------------------------|-------------------------|---|---|-----------------------|
| \$ 3,039,219 | \$ 3,418,107 | \$ 4,243,753 | \$ 62,195 | \$ 500,000 | \$ 19,734,371 |
| - | - | 45,000,000 | - | 25,000,000 | 86,561,697 |
| 806,085 | - | 42,781 | - | - | 6,028,185 |
| 4,950,264 | 1,996,245 | 11,972,739 | 196,403 | - | 30,371,197 |
| - | - | 47,050 | - | - | 887,914 |
| 5,756,349 | 1,996,245 | 12,062,570 | 196,403 | - | 37,287,296 |
| - | - | (45,724) | - | - | (259,123) |
| 5,756,349 | 1,996,245 | 12,016,846 | 196,403 | - | 37,028,173 |
| 127,636 | - | - | - | - | 127,636 |
| - | - | - | - | - | 290,198 |
| - | - | 504,266 | - | - | 539,756 |
| 8,923,204 | 5,414,352 | 61,764,865 | 258,598 | 25,500,000 | 144,281,831 |
| - | - | - | - | - | 1,031,968 |
| <u>\$ 8,923,204</u> | <u>\$ 5,414,352</u> | <u>\$ 61,764,865</u> | <u>\$ 258,598</u> | <u>\$ 25,500,000</u> | <u>\$ 145,313,799</u> |
| | | | | | |
| \$ 6,532,397 | \$ 2,514,593 | \$ 6,701,012 | \$ - | \$ - | \$ 17,343,972 |
| 1,777,609 | 1,796,812 | 5,212,606 | - | - | 19,760,389 |
| 145,674 | - | - | - | - | 145,674 |
| 244,612 | 340,124 | 2,075,010 | - | - | 2,659,746 |
| - | - | - | - | - | 2,847,639 |
| 222,912 | 95,595 | - | - | - | 771,434 |
| - | 667,228 | 537,568 | 258,598 | - | 7,625,213 |
| - | - | - | - | - | 2,260,981 |
| 8,923,204 | 5,414,352 | 14,526,196 | 258,598 | - | 53,415,048 |
| - | - | 504,266 | - | - | 829,954 |
| - | - | - | - | - | 13,827,711 |
| - | - | 46,734,403 | - | 25,500,000 | 77,241,086 |
| - | - | 47,238,669 | - | 25,500,000 | 91,898,751 |
| <u>\$ 8,923,204</u> | <u>\$ 5,414,352</u> | <u>\$ 61,764,865</u> | <u>\$ 258,598</u> | <u>\$ 25,500,000</u> | <u>\$ 145,313,799</u> |

City of Detroit, Michigan
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2006

| | Community Development Block Grant Fund | Construction Code Fund | Detroit Building Authority Fund | Drug Law Enforcement Fund |
|--|---|------------------------------|--|---------------------------------|
| REVENUES: | | | | |
| Licenses, Permits and Inspection Charges..... | \$ - | \$ 27,092,666 | \$ - | \$ - |
| Intergovernmental: | | | | |
| Federal..... | 47,511,098 | - | - | - |
| State..... | - | - | - | - |
| Other..... | - | - | - | - |
| Gas and Weight Tax..... | - | - | - | - |
| Sales and Charges for Services..... | 4,813,738 | 30,535 | - | - |
| Ordinance Fines and Forfeitures..... | - | 773,138 | - | 1,653,352 |
| Earnings on Investments..... | - | - | - | 444,759 |
| Other Revenue..... | - | - | 5,124,814 | 151,351 |
| Total Revenues..... | 52,324,836 | 27,896,339 | 5,124,814 | 2,249,462 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Public Protection..... | - | 26,101,945 | - | 2,314,277 |
| Health..... | - | - | - | - |
| Economic Development..... | 49,494,336 | - | 1,099,731 | - |
| Educational Development..... | - | - | - | - |
| Housing and Conditions..... | - | - | - | - |
| Transportation Facilitation..... | - | - | - | - |
| Total Expenditures..... | 49,494,336 | 26,101,945 | 1,099,731 | 2,314,277 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures..... | 2,830,500 | 1,794,394 | 4,025,083 | (64,815) |
| Other Financing Sources: | | | | |
| Transfers In: | | | | |
| General Fund..... | - | - | - | - |
| Major Street Fund..... | - | - | - | - |
| Total Transfers In..... | - | - | - | - |
| Total Other Financing Sources..... | - | - | - | - |
| Other Financing Uses: | | | | |
| Transfers Out: | | | | |
| General Fund..... | - | 1,790,000 | - | - |
| General Debt Service Funds..... | 2,830,500 | - | - | - |
| Local Street Fund..... | - | - | - | - |
| Total Transfers Out..... | 2,830,500 | 1,790,000 | - | - |
| Total Other Financing Uses..... | 2,830,500 | 1,790,000 | - | - |
| Total Other Financing Sources (Uses)..... | (2,830,500) | (1,790,000) | - | - |
| Net Change in Fund Balances..... | - | 4,394 | 4,025,083 | (64,815) |
| Fund Balances at Beginning of Year | - | 257,907 | 850,254 | 14,060,455 |
| Increase (Decrease) in Inventory..... | - | (12,519) | - | 39,323 |
| Fund Balances at End of Year..... | \$ - | \$ 249,782 | \$ 4,875,337 | \$ 14,034,963 |

See accompanying independent auditors' report

| Empowerment Zone Fund | Detroit Workforce Development Fund | Human Services Fund | Street Funds | Supportive Housing Programs and Homeless Initiatives Funds | Targeted Business Development Fund | Total |
|-----------------------------|---|---------------------------|-----------------|---|---|---------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 27,092,666 |
| 710,125 | 64,427,129 | 71,831,728 | - | 2,850,753 | - | 187,330,833 |
| - | - | 6,212,786 | 8,392,896 | - | - | 14,605,682 |
| - | - | - | 18,120,276 | - | - | 18,120,276 |
| - | - | - | 62,804,995 | - | - | 62,804,995 |
| - | - | - | - | - | - | 4,844,273 |
| - | - | - | - | - | - | 2,426,490 |
| - | - | - | 1,596,194 | - | - | 2,040,953 |
| - | - | - | 1,409,387 | - | - | 6,685,552 |
| 710,125 | 64,427,129 | 78,044,514 | 92,323,748 | 2,850,753 | - | 325,951,720 |
| - | - | - | - | - | - | 28,416,222 |
| - | - | 81,484,973 | - | - | - | 81,484,973 |
| 710,125 | - | - | - | - | 7,000,000 | 58,304,192 |
| - | 64,427,129 | - | - | - | - | 64,427,129 |
| - | - | - | - | 2,850,753 | - | 2,850,753 |
| - | - | - | 79,343,398 | - | - | 79,343,398 |
| 710,125 | 64,427,129 | 81,484,973 | 79,343,398 | 2,850,753 | 7,000,000 | 314,826,667 |
| - | - | (3,440,459) | 12,980,350 | - | (7,000,000) | 11,125,053 |
| - | - | 3,440,459 | - | - | - | 3,440,459 |
| - | - | - | 10,000,000 | - | - | 10,000,000 |
| - | - | 3,440,459 | 10,000,000 | - | - | 13,440,459 |
| - | - | 3,440,459 | 10,000,000 | - | - | 13,440,459 |
| - | - | - | 9,791,408 | - | - | 11,581,408 |
| - | - | - | - | - | - | 2,830,500 |
| - | - | - | 10,000,000 | - | - | 10,000,000 |
| - | - | - | 19,791,408 | - | - | 24,411,908 |
| - | - | - | 19,791,408 | - | - | 24,411,908 |
| - | - | 3,440,459 | (9,791,408) | - | - | (10,971,449) |
| - | - | - | 3,188,942 | - | (7,000,000) | 153,604 |
| - | - | - | 44,174,661 | - | 32,500,000 | 91,843,277 |
| - | - | - | (124,934) | - | - | (98,130) |
| \$ - | \$ - | \$ - | \$ 47,238,669 | \$ - | \$ 25,500,000 | \$ 91,898,751 |

City of Detroit, Michigan
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL CAPITAL PROJECTS FUNDS
June 30, 2006

| | Capital Projects | Urban Renewal | Total |
|---|-----------------------|----------------------|-----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash..... | \$ 3,111,444 | \$ 2,221,603 | \$ 5,333,047 |
| Investments..... | 108,221,883 | 11,935,722 | 120,157,605 |
| Accounts and Contracts Receivable: | | | |
| Due from Other Funds..... | 4,185,946 | 6,187 | 4,192,133 |
| Due from Other Governmental Agencies..... | 745,103 | - | 745,103 |
| Other Receivables - Trade..... | 935,116 | - | 935,116 |
| Total Accounts and Contracts | | | |
| Receivable | 5,866,165 | 6,187 | 5,872,352 |
| Allowance for Uncollectible Accounts..... | (947,420) | - | (947,420) |
| Total Accounts and Contracts Receivable - Net..... | 4,918,745 | 6,187 | 4,924,932 |
| Current Special Assessments Receivable..... | 342,173 | - | 342,173 |
| Restricted Cash and Cash Equivalents..... | 16,376,057 | 32,893 | 16,408,950 |
| Total Assets..... | \$ 132,970,302 | \$ 14,196,405 | \$ 147,166,707 |

LIABILITIES AND FUND BALANCES

| | | | |
|---|-----------------------|----------------------|-----------------------|
| Liabilities: | | | |
| Accounts and Contracts Payable..... | \$ 8,912,849 | \$ 761,152 | \$ 9,674,001 |
| Due to Other Funds..... | 834,510 | 1,006,187 | 1,840,697 |
| Advance from General Fund..... | 850,000 | - | 850,000 |
| Other Liabilities..... | 15,547 | 89,737 | 105,284 |
| Deferred Revenue..... | 251,149 | 11,715 | 262,864 |
| Total Liabilities..... | 10,864,055 | 1,868,791 | 12,732,846 |
| Fund Balances: | | | |
| Undesignated Fund Balances..... | 122,106,247 | 12,327,614 | 134,433,861 |
| Total Fund Balances..... | 122,106,247 | 12,327,614 | 134,433,861 |
| Total Liabilities and Fund Balances..... | \$ 132,970,302 | \$ 14,196,405 | \$ 147,166,707 |

See accompanying independent auditors' report

City of Detroit, Michigan
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2006

| | Capital Projects | Urban Renewal | Total |
|--|---------------------|------------------|----------------|
| Revenues: | | | |
| Grants..... | \$ 2,197,598 | \$ 19,191,544 | \$ 21,389,142 |
| Earnings on Investments..... | 6,166,661 | 2,111,662 | 8,278,323 |
| Other Revenues..... | 874,832 | - | 874,832 |
| Total Revenues..... | 9,239,091 | 21,303,206 | 30,542,297 |
| Expenditures: | | | |
| Capital Outlay..... | 62,022,146 | 26,299,672 | 88,321,818 |
| Total Expenditures..... | 62,022,146 | 26,299,672 | 88,321,818 |
| Excess (Deficiency) of Revenues | | | |
| Over (Under) Expenditures..... | (52,783,055) | (4,996,466) | (57,779,521) |
| Other Financing Sources: | | | |
| Transfers In: | | | |
| Proceeds of Section 108 Federal Note..... | - | 1,800,000 | 1,800,000 |
| Proceeds from Bonds..... | 81,903,071 | - | 81,903,071 |
| Premium on Bonds Issued..... | 3,778,114 | - | 3,778,114 |
| Total Other Financing Sources..... | 85,681,185 | 1,800,000 | 87,481,185 |
| Other Financing Uses: | | | |
| Transfers Out: | | | |
| General Fund..... | 1,199,500 | | 1,199,500 |
| Principal Paid to Bond Agent for Refunded Bonds..... | 29,940,000 | - | 29,940,000 |
| Interest Paid to Bond Agent for Refunded Bonds..... | 1,741,161 | - | 1,741,161 |
| Bond Issuance Cost..... | 2,200,024 | - | 2,200,024 |
| Total Other Financing Uses..... | 35,080,685 | - | 35,080,685 |
| Total Other Financing Sources (Uses)..... | 50,600,500 | 1,800,000 | 52,400,500 |
| Net Change in Fund Balances..... | (2,182,555) | (3,196,466) | (5,379,021) |
| Fund Balances at Beginning of Year..... | 124,288,802 | 15,524,080 | 139,812,882 |
| Fund Balances at End of Year..... | \$ 122,106,247 | \$ 12,327,614 | \$ 134,433,861 |

See accompanying independent auditors' report

City of Detroit, Michigan
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL PERMANENT FUNDS
June 30, 2006

| | Permanent Funds | | |
|---|------------------------|---------------------------|---------------------|
| | Bequest Funds | | |
| | Other Trust | Cemetery Trust | Total |
| ASSETS | | | |
| Cash..... | \$ - | \$ 56,566 | \$ 56,566 |
| Restricted Cash..... | - | 103,786 | 103,786 |
| Earnings on Investments..... | 44,653 | 1,096,486 | 1,141,139 |
| Total Assets..... | \$ 44,653 | \$ 1,256,838 | \$ 1,301,491 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Total Liabilities..... | \$ - | \$ 9,922 | \$ 9,922 |
| Fund Balances: | | | |
| Reserved for Restricted Assets..... | 44,653 | 1,246,916 | 1,291,569 |
| Total Fund Balances..... | 44,653 | 1,246,916 | 1,291,569 |
| Total Liabilities and Fund Balances..... | \$ 44,653 | \$ 1,256,838 | \$ 1,301,491 |

See accompanying independent auditors' report

City of Detroit, Michigan
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL PERMANENT FUNDS
For the Year Ended June 30, 2006

| | <u>Permanent Funds</u> | | |
|---------------------------------------|------------------------|---------------------|---------------------|
| | <u>Bequest Funds</u> | | |
| | <u>Other</u> | <u>Cemetery</u> | |
| | <u>Trust</u> | <u>Trust</u> | <u>Total</u> |
| Revenues: | | | |
| Earnings on Investments..... | \$ 1,695 | \$ 36,951 | \$ 38,646 |
| Total Revenues..... | 1,695 | 36,951 | 38,646 |
| Expenditures: | | | |
| Total Expenditures..... | - | 700 | 700 |
| Total Revenues Over Expenditures..... | 1,695 | 36,251 | 37,946 |
| Fund Balances, Beginning..... | 42,958 | 1,210,665 | 1,253,623 |
| Fund Balances, Ending..... | <u>\$ 44,653</u> | <u>\$ 1,246,916</u> | <u>\$ 1,291,569</u> |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
COMMUNITY DEVELOPMENT BLOCK GRANT FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|---|------------------|---------------|---------------|--------------------|
| | Original | Final | Amounts | Positive(Negative) |
| | | | | Budget |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Federal..... | \$ 44,998,991 | \$ 47,062,602 | \$ 47,511,098 | \$ 448,496 |
| Other Revenues..... | 4,095,186 | 4,400,655 | 4,813,738 | 413,083 |
| Total Revenues..... | 49,094,177 | 51,463,257 | 52,324,836 | 861,579 |
| Expenditures: | | | | |
| Economic Development..... | 49,094,177 | 51,463,257 | 49,494,336 | 1,968,921 |
| Total Expenditures..... | 49,094,177 | 51,463,257 | 49,494,336 | 1,968,921 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | - | 2,830,500 | 2,830,500 |
| Other Financing Sources: | | | | |
| Transfers in: | | | | |
| General Fund..... | - | 719,511 | - | (719,511) |
| From Other Funds..... | - | 2,110,989 | - | (2,110,989) |
| Total Other Financing Sources..... | - | 2,830,500 | - | (2,830,500) |
| Other Financing Uses: | | | | |
| Transfers out: | | | | |
| Transfers to other funds..... | - | 2,830,500 | 2,830,500 | - |
| Total Other Financing Uses..... | - | 2,830,500 | 2,830,500 | - |
| Total Other Financing Sources (Uses)..... | - | - | (2,830,500) | (2,830,500) |
| Net Change in Fund Balances..... | - | - | - | - |
| Fund Balances at Beginning of Year..... | - | - | - | - |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ - | \$ - |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
CONSTRUCTION CODE FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|---|------------------|---------------|---------------|------------------------------|
| | Original | Final | Amounts | Positive(Negative) Budget |
| Revenues: | | | | |
| Licenses, Permits and Inspection Charges..... | \$ 25,778,912 | \$ 26,417,312 | \$ 27,092,666 | \$ 675,354 |
| Sales and Charges for Services..... | 20,000 | (32,920) | 30,535 | 63,455 |
| Ordinance Fines and Forfeitures..... | 2,238,610 | 3,178,817 | 773,138 | (2,405,679) |
| Total Revenues..... | 28,037,522 | 29,563,209 | 27,896,339 | (1,666,870) |
| Expenditures: | | | | |
| Public Protection..... | 28,037,522 | 30,011,094 | 26,101,945 | 3,909,149 |
| Total Expenditures..... | 28,037,522 | 30,011,094 | 26,101,945 | 3,909,149 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | (447,885) | 1,794,394 | 2,242,279 |
| Other Financing Uses: | | | | |
| Transfers out: | | | | |
| Transfers to General Fund..... | - | - | 1,790,000 | (1,790,000) |
| Total Other Financing Uses..... | - | - | 1,790,000 | (1,790,000) |
| Total Other Financing Sources (Uses)..... | - | - | (1,790,000) | (1,790,000) |
| Net Change in Fund Balances..... | - | (447,885) | 4,394 | 452,279 |
| Fund Balances at Beginning of Year..... | - | 447,885 | 257,907 | (189,978) |
| Increase(Decrease) in Inventories..... | - | - | (12,519) | (12,519) |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ 249,782 | \$ 249,782 |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
DETROIT BUILDING AUTHORITY
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|---|------------------|--------------|--------------|------------------------------|
| | Original | Final | Amounts | Positive(Negative) Budget |
| Revenues: | | | | |
| Other Revenues..... | \$ 1,248,404 | \$ 1,248,404 | \$ 5,124,814 | \$ 3,876,410 |
| Total Revenues..... | 1,248,404 | 1,248,404 | 5,124,814 | 3,876,410 |
| Expenditures: | | | | |
| Economic Development..... | 1,248,404 | 1,248,404 | 1,099,731 | 148,673 |
| Total Expenditures..... | 1,248,404 | 1,248,404 | 1,099,731 | 148,673 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | - | 4,025,083 | 4,025,083 |
| Net Change in Fund Balances..... | - | - | 4,025,083 | 4,025,083 |
| Fund Balances at Beginning of Year..... | - | - | 850,254 | 850,254 |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ 4,875,337 | \$ 4,875,337 |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
DRUG LAW ENFORCEMENT FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|---|------------------|------------------|------------------|------------------------------|
| | Original | Final | Amounts | Positive(Negative) Budget |
| Revenues: | | | | |
| Ordinance Fines and Forfeitures..... | \$ 4,080,857 | \$ 5,580,857 | \$ 1,653,352 | \$ (3,927,505) |
| Earnings on Investments..... | - | - | 444,759 | 444,759 |
| Hotel Occupancy Tax and the Liquor Tax..... | - | - | 151,351 | 151,351 |
| Total Revenues..... | 4,080,857 | 5,580,857 | 2,249,462 | (3,331,395) |
| Expenditures: | | | | |
| Public Protection..... | 4,080,857 | 5,641,312 | 2,314,277 | 3,327,035 |
| Total Expenditures..... | 4,080,857 | 5,641,312 | 2,314,277 | 3,327,035 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | (60,455) | (64,815) | (4,360) |
| Net Change in Fund Balances..... | - | (60,455) | (64,815) | (4,360) |
| Fund Balances at Beginning of Year..... | - | 60,455 | 14,060,455 | 14,000,000 |
| Increase(Decrease) in Inventory..... | - | - | 39,323 | 39,323 |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ 14,034,963 | \$ 14,034,963 |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
EMPOWERMENT ZONE FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|--|-------------------------|-------------------|-------------------|---------------------------|
| | Original | Final | Amounts | Positive(Negative) |
| | | | | Budget |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Federal..... | \$ - | \$ 710,125 | \$ 710,125 | \$ - |
| Total Revenues..... | - | 710,125 | 710,125 | - |
| Expenditures: | | | | |
| Economic Development..... | - | 710,125 | 710,125 | - |
| Total Expenditures..... | - | 710,125 | 710,125 | - |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | - | - | - |
| Net Change in Fund Balances..... | - | - | - | - |
| Fund Balances at Beginning of Year..... | - | - | - | - |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ - | \$ - |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
DETROIT WORKFORCE DEVELOPMENT DEPARTMENT
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|--|-------------------------|----------------------|----------------------|---------------------------|
| | Original | Final | Amounts | Positive(Negative) |
| | | | | Budget |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Federal..... | \$ 59,119,997 | \$ 63,456,675 | \$ 64,427,129 | \$ 970,454 |
| Total Revenues..... | 59,119,997 | 63,456,675 | 64,427,129 | 970,454 |
| Expenditures: | | | | |
| Educational Development..... | 59,119,997 | 63,456,675 | 64,427,129 | (970,454) |
| Total Expenditures..... | 59,119,997 | 63,456,675 | 64,427,129 | (970,454) |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | - | - | - |
| Net Change in Fund Balances..... | - | - | - | - |
| Fund Balances at Beginning of Year..... | - | - | - | - |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ - | \$ - |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
HUMAN SERVICES FUNDS
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Actual</u> |
|--|-------------------------|-------------------|-------------------|---------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Positive(Negative)</u> |
| | | | | <u>Budget</u> |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Federal..... | \$ 73,564,101 | \$ 71,130,569 | \$ 71,831,728 | \$ 701,159 |
| State..... | 7,158,924 | 5,875,413 | 6,212,786 | 337,373 |
| Total Revenues..... | 80,723,025 | 77,005,982 | 78,044,514 | 1,038,532 |
| Expenditures: | | | | |
| Health..... | 80,723,025 | 83,772,824 | 81,484,973 | 2,287,851 |
| Total Expenditures..... | 80,723,025 | 83,772,824 | 81,484,973 | 2,287,851 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | (6,766,842) | (3,440,459) | 3,326,383 |
| Other Financing Sources: | | | | |
| Transfers in: | | | | |
| General Fund..... | - | 6,766,842 | 3,440,459 | (3,326,383) |
| Total Other Financing Sources..... | - | 6,766,842 | 3,440,459 | (3,326,383) |
| Total Other Financing Sources (Uses)..... | - | 6,766,842 | 3,440,459 | (3,326,383) |
| Net Change in Fund Balances..... | - | - | - | - |
| Fund Balances at Beginning of Year..... | - | - | - | - |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ - | \$ - |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
STREET FUNDS
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|--|-------------------|---------------------|----------------------|----------------------|
| | Original | Final | Amounts | Positive(Negative) |
| | | | | Budget |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| State..... | \$ 2,800,000 | \$ 8,915,228 | \$ 8,392,896 | \$ (522,332) |
| Other Grants..... | - | 18,458,488 | 18,120,276 | (338,212) |
| Gas and Weight Tax..... | 44,457,635 | 62,337,758 | 62,804,995 | 467,237 |
| Earnings on Investments..... | - | 620,000 | 1,596,194 | 976,194 |
| Other Revenues..... | 990,700 | 2,046,600 | 1,409,387 | (637,213) |
| Total Revenues..... | 48,248,335 | 92,378,074 | 92,323,748 | (54,326) |
| Expenditures: | | | | |
| Transportation Facilitation..... | 48,248,335 | 93,090,084 | 79,343,397 | 13,746,687 |
| Total Expenditures..... | 48,248,335 | 93,090,084 | 79,343,397 | 13,746,687 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | (712,010) | 12,980,351 | 13,692,361 |
| Other Financing Sources: | | | | |
| Transfers in: | | | | |
| From Other Funds..... | - | - | 10,000,000 | 10,000,000 |
| Total Other Financing Sources..... | - | - | 10,000,000 | 10,000,000 |
| Transfers out: | | | | |
| Transfers to other funds..... | - | - | 10,000,000 | (10,000,000) |
| Transfers to General fund..... | - | 18,223,564 | 9,791,409 | 8,432,155 |
| Other Financing Uses: | | | | |
| Total Other Financing Uses..... | - | 18,223,564 | 19,791,409 | (1,567,845) |
| Total Other Financing Sources (Uses)..... | - | (18,223,564) | (9,791,409) | 8,432,155 |
| Net Change in Fund Balances..... | - | (18,935,574) | 3,188,942 | 22,124,516 |
| Fund Balances at Beginning of Year..... | - | 18,935,574 | 44,174,661 | 25,239,087 |
| Increase(Decrease) in Inventory..... | - | - | (124,934) | (124,934) |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ 47,238,669 | \$ 47,238,669 |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
SUPPORTIVE HOUSING PROGRAMS AND HOMELESS INITIATIVE FUNDS
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|--|-------------------------|---------------------|---------------------|---------------------------|
| | Original | Final | Amounts | Positive(Negative) |
| | | | | Budget |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Federal..... | \$ 4,715,436 | \$ 4,736,503 | \$ 2,850,753 | \$ (1,885,750) |
| Total Revenues..... | 4,715,436 | 4,736,503 | 2,850,753 | (1,885,750) |
| Expenditures: | | | | |
| Housing and Conditions..... | 4,715,436 | 4,736,503 | 2,850,753 | 1,885,750 |
| Total Expenditures..... | 4,715,436 | 4,736,503 | 2,850,753 | 1,885,750 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | - | - | - |
| Net Change in Fund Balances..... | - | - | - | - |
| Fund Balances at Beginning of Year..... | - | - | - | - |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ - | \$ - |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
TARGETED BUSINESS DEVELOPMENT FUND
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Actual</u> |
|--|-------------------------|--------------|----------------------|---------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Positive(Negative)</u> |
| | | | | <u>Budget</u> |
| Revenues: | | | | |
| Total Revenues..... | \$ - | \$ - | \$ - | \$ - |
| Expenditures: | | | | |
| Economic Development..... | - | - | 7,000,000 | (7,000,000) |
| Capital Outlay..... | - | - | - | - |
| Total Expenditures..... | - | - | 7,000,000 | (7,000,000) |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | - | (7,000,000) | (7,000,000) |
| Net Change in Fund Balances..... | - | - | (7,000,000) | (7,000,000) |
| Fund Balances at Beginning of Year..... | - | - | 32,500,000 | 32,500,000 |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ 25,500,000 | \$ 25,500,000 |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
DEBT SERVICE FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|--|---------------------|---------------------|----------------------|------------------------------|
| | Original | Final | Amounts | Positive(Negative) Budget |
| Revenues: | | | | |
| Property Taxes..... | \$ 59,662,290 | \$ 59,662,290 | \$ 58,303,541 | \$ (1,358,749) |
| Other Taxes and Assessments..... | 3,272,371 | 3,272,371 | 2,270,766 | (1,001,605) |
| State Hotel and Liquor Tax..... | - | 16,288,006 | 16,287,676 | (330) |
| Revenue From Use of Assets..... | - | 2,171,990 | 2,171,990 | - |
| Earnings on Investments..... | - | 600,294 | 1,800,873 | 1,200,579 |
| Other Revenues..... | - | - | 1,929 | 1,929 |
| Total Revenues..... | 62,934,661 | 81,994,951 | 80,836,775 | (1,158,176) |
| Expenditures: | | | | |
| Economic Development..... | 5,317,586 | 7,238,363 | 4,924,801 | 2,313,562 |
| Total Expenditures..... | 5,317,586 | 7,238,363 | 4,924,801 | 2,313,562 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | 57,617,075 | 74,756,588 | 75,911,974 | 1,155,386 |
| Other Financing Sources: | | | | |
| Transfers in: | | | | |
| General Fund..... | - | 74,534,901 | 39,640,692 | (34,894,209) |
| Special Revenue Funds..... | - | - | 2,830,499 | 2,830,499 |
| Total Other Financing Sources..... | - | 74,534,901 | 42,471,191 | (32,063,710) |
| Other Financing Uses/Debt Service: | | | | |
| Principal..... | 26,890,000 | 112,696,417 | 71,504,576 | 41,191,841 |
| Interest..... | 30,727,075 | 51,429,718 | 48,140,062 | 3,289,656 |
| Total Other Financing Uses..... | 57,617,075 | 164,126,135 | 119,644,638 | 44,481,497 |
| Total Other Financing Sources (Uses)..... | (57,617,075) | (89,591,234) | (77,173,447) | 12,417,787 |
| Net Change in Fund Balances..... | - | (14,834,646) | (1,261,473) | 13,573,173 |
| Fund Balances at Beginning of Year..... | - | 14,834,646 | 29,061,404 | 14,226,758 |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ 27,799,931 | \$ 27,799,931 |

See accompanying independent auditors' report

City of Detroit, Michigan
NON-MAJOR GOVERNMENTAL FUNDS
NON-MAJOR CAPITAL PROJECTS FUNDS
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Actual |
|--|--------------------|--------------------|-------------------|------------------------------|
| | Original | Final | Amounts | Positive(Negative) Budget |
| Revenues: | | | | |
| Grants..... | \$ 18,447,152 | \$ 34,467,834 | \$ 21,389,142 | \$ (13,078,692) |
| Earnings on Investments..... | 17,218,859 | 18,572,925 | 8,278,323 | (10,294,602) |
| Other Revenues..... | 1,506,494 | 2,325,262 | 874,832 | (1,450,430) |
| Total Revenues..... | 37,172,505 | 55,366,021 | 30,542,297 | (24,823,724) |
| Expenditures: | | | | |
| Capital Outlay..... | 218,932,142 | 253,675,101 | 88,321,818 | 165,353,283 |
| Total Expenditures..... | 218,932,142 | 253,675,101 | 88,321,818 | 165,353,283 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | (181,759,637) | (198,309,080) | (57,779,521) | 140,529,559 |
| Other Financing Sources: | | | | |
| Transfers in: | | | | |
| General Debt Service Fund..... | 7,848,560 | 7,848,560 | - | (7,848,560) |
| Proceeds of Section 108 Federal Note..... | - | - | 1,800,000 | 1,800,000 |
| Proceeds from Bonds..... | 53,802,571 | 53,802,571 | 81,903,071 | 28,100,500 |
| Premium on Bonds Issued..... | - | - | 3,778,114 | 3,778,114 |
| Total Other Financing Sources..... | 61,651,131 | 61,651,131 | 87,481,185 | 25,830,054 |
| Other Financing Uses: | | | | |
| Transfers out: | | | | |
| Transfers to other funds..... | - | - | 1,199,500 | (1,199,500) |
| Principal Paid to Bond Agent for Refunded Bonds..... | 15,300,715 | 15,300,715 | 29,940,000 | (14,639,285) |
| Interest Paid to Bond Agent for Refunded Bonds..... | - | - | 3,941,185 | (3,941,185) |
| Total Other Financing Uses..... | 15,300,715 | 15,300,715 | 35,080,685 | (19,779,970) |
| Total Other Financing Sources (Uses)..... | 46,350,416 | 46,350,416 | 52,400,500 | 6,050,084 |
| Net Change in Fund Balances..... | (135,409,221) | (151,958,664) | (5,379,021) | 146,579,643 |
| Fund Balances at Beginning of Year..... | 135,409,221 | 151,958,664 | 139,812,882 | (12,145,782) |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ 134,433,861 | \$ -134,433,861 |

See accompanying independent auditors' report

City of Detroit, Michigan
BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS
PERMANENT FUNDS BEQUEST FUND
For the Year Ended June 30, 2006

| | Budgeted Amounts | | Actual Amounts | Variance Actual Positive(Negative) |
|---|------------------|-------|-------------------|---------------------------------------|
| | Original | Final | | Budget |
| Revenues: | | | | |
| Earnings on Investments..... | \$ - | \$ - | \$ 38,646 | \$ 38,646 |
| Other Revenues..... | - | - | - | - |
| Total Revenues..... | - | - | 38,646 | 38,646 |
| Expenditures: | | | | |
| Economic Development..... | - | - | 700 | (700) |
| Capital Outlay..... | - | - | - | - |
| Total Expenditures..... | - | - | 700 | (700) |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures..... | - | - | 37,946 | 37,946 |
| Net Change in Fund Balances..... | - | - | 37,946 | 37,946 |
| Fund Balances at Beginning of Year..... | - | - | 1,253,623 | 1,253,623 |
| Fund Balances at End of Year..... | \$ - | \$ - | \$ 1,291,569 | \$ 1,291,569 |

See accompanying independent auditors' report

City of Detroit, Michigan
COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUND
June 30, 2006

| | General Retirement System | Policemen & Firemen Retirement System | Employee Benefit Fund |
|---|---------------------------------|---|-----------------------------|
| ASSETS | | | |
| Cash and Equivalents..... | \$ 14,631,971 | \$ 8,095,553 | \$ 1,687,643 |
| Short-Term Investments..... | 57,199,392 | 85,549,655 | - |
| Commercial Paper..... | - | - | 10,076,779 |
| U. S. Government Obligations..... | - | - | 15,372 |
| Bonds and Stocks..... | 2,632,728,501 | 3,057,701,659 | 6,472,200 |
| Mortgage-Backed Securities..... | 82,017,278 | 153,297,504 | 18,095,051 |
| Mortgage and Construction Loans..... | 106,270,231 | 132,867,205 | - |
| Equity Interest in Real Estate..... | 89,256,803 | 107,260,311 | - |
| Real Estate Investment Trusts Held by Custodian..... | - | 60,374,430 | - |
| Pooled Investments..... | 162,121,174 | 339,081,044 | 7,131,252 |
| Private Placements..... | 339,900,994 | 45,983,046 | - |
| Total Investments..... | 3,469,494,373 | 3,982,114,854 | 41,790,654 |
| Accrued Investment Income | 17,112,437 | 20,724,378 | 14,112 |
| Due from Primary Government..... | 27,622,101 | 57,807,332 | 19,719,809 |
| Due from Component Units..... | - | - | 1,108,553 |
| Other Receivables..... | 67,497,254 | 158,450,331 | 1,481,774 |
| Total Accounts Receivable..... | 95,119,355 | 216,257,663 | 22,310,136 |
| Cash and investments held as collateral for securities lending | 548,294,329 | 1,028,069,856 | - |
| Capital Assets | 417,749 | 417,749 | - |
| Total Assets..... | <u>\$ 4,145,070,214</u> | <u>\$ 5,255,680,053</u> | <u>\$ 65,802,545</u> |
| LIABILITIES AND NET ASSETS | | | |
| Accounts and Contracts Payable..... | \$ - | \$ - | \$ 30,506,805 |
| Due to Broker..... | 94,932,100 | 181,756,605 | - |
| Benefits and Claims Payable..... | 3,964,094 | 4,291,693 | - |
| Due to Primary Government..... | 1,372,501 | - | 1,803,663 |
| Pension over Contribution..... | - | - | - |
| Amount Due to Broker for Securities Lending..... | 548,294,329 | 1,028,069,856 | - |
| Other Liabilities..... | 41,427,970 | 6,177,671 | - |
| Total Liabilities..... | <u>689,990,994</u> | <u>1,220,295,825</u> | <u>32,310,468</u> |
| Net Assets Held in Trust for Pension and Employee Benefits..... | 3,455,079,220 | 4,035,384,228 | 6,517,539 |
| Death Benefit and Disability Income Protection Reserves..... | - | - | 26,974,538 |
| Total Net Assets..... | <u>\$ 3,455,079,220</u> | <u>\$ 4,035,384,228</u> | <u>\$ 33,492,077</u> |

See accompanying independent auditors' report

| Employee Disability Income Protection Fund | Total Pension and Other Employee Benefit Funds | Agency Funds | Total |
|--|--|-----------------|------------------|
| \$ (919,261) | \$ 23,495,906 | \$ 2,620,612 | \$ 26,116,518 |
| - | 142,749,047 | - | 142,749,047 |
| - | 10,076,779 | - | 10,076,779 |
| - | 15,372 | - | 15,372 |
| - | 5,696,902,360 | - | 5,696,902,360 |
| - | 253,409,833 | - | 253,409,833 |
| - | 239,137,436 | - | 239,137,436 |
| - | 196,517,114 | - | 196,517,114 |
| - | 60,374,430 | - | 60,374,430 |
| - | 508,333,470 | 11,112,960 | 519,446,430 |
| - | 385,884,040 | - | 385,884,040 |
| - | 7,493,399,881 | 11,112,960 | 7,504,512,841 |
| - | 37,850,927 | - | 37,850,927 |
| 1,915,697 | 107,064,939 | - | 107,064,939 |
| 8,605 | 1,117,158 | - | 1,117,158 |
| - | 227,429,359 | - | 227,429,359 |
| 1,924,302 | 335,611,456 | - | 335,611,456 |
| - | 1,576,364,185 | - | 1,576,364,185 |
| - | 835,498 | - | 835,498 |
| \$ 1,005,041 | \$ 9,467,557,853 | \$ 13,733,572 | \$ 9,481,291,425 |
| | | | |
| \$ - | \$ 30,506,805 | \$ 1,722,138 | \$ 32,228,943 |
| - | 276,688,705 | - | 276,688,705 |
| 6,348 | 8,262,135 | - | 8,262,135 |
| - | 3,176,164 | 631,384 | 3,807,548 |
| - | - | - | - |
| - | 1,576,364,185 | - | 1,576,364,185 |
| - | 47,605,641 | 11,380,050 | 58,985,691 |
| 6,348 | 1,942,603,635 | 13,733,572 | 1,956,337,207 |
| 998,693 | 7,497,979,680 | - | 7,497,979,680 |
| - | 26,974,538 | - | 26,974,538 |
| \$ 998,693 | \$ 7,524,954,218 | \$ - | \$ 7,524,954,218 |

City of Detroit, Michigan
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

| | Retirement Systems | | Employee Benefits | | Total |
|---|---------------------------|---|-----------------------|--|-------------------------|
| | General Retirement System | Policemen and Firemen Retirement System | Employee Benefit Fund | Employee Disability Income Protection Plan | |
| ADDITIONS: | | | | | |
| Employer Contributions..... | \$ 58,162,088 | \$ 57,807,332 | \$ 270,964,200 | \$ 1,752,549 | \$ 388,686,169 |
| Plan Member Contributions..... | 20,462,296 | 10,007,531 | 21,193,330 | - | 51,663,157 |
| Other Income..... | - | - | - | - | - |
| Total Contributions..... | 78,624,384 | 67,814,863 | 292,157,530 | 1,752,549 | 440,349,326 |
| Investment Income..... | 377,184,751 | 381,669,729 | 2,502,546 | - | 761,357,026 |
| Total Additions..... | 455,809,135 | 449,484,592 | 294,660,076 | 1,752,549 | 1,201,706,352 |
| DEDUCTIONS: | | | | | |
| Pension and Annuity Benefits..... | 201,611,854 | 217,411,446 | - | - | 419,023,300 |
| Premiums to Insurers and Damage Claims..... | - | - | 292,215,419 | 1,753,856 | 293,969,275 |
| Benefits..... | - | - | 2,284,633 | - | 2,284,633 |
| Refunds..... | 114,333,813 | 22,244,391 | - | - | 136,578,204 |
| General and Administrative Expenses..... | 3,670,575 | 3,399,285 | 4,153,474 | - | 11,223,334 |
| Total Deductions..... | 319,616,242 | 243,055,122 | 298,653,526 | 1,753,856 | 863,078,746 |
| Net Increase..... | 136,192,893 | 206,429,470 | (3,993,450) | (1,307) | 338,627,606 |
| Net Assets, Beginning of Year..... | 3,318,886,327 | 3,828,954,758 | 37,485,527 | 1,000,000 | 7,186,326,612 |
| Net Assets, End of Year..... | \$ 3,455,079,220 | \$ 4,035,384,228 | \$ 33,492,077 | \$ 998,693 | \$ 7,524,954,218 |

See accompanying independent auditors' report

City of Detroit, Michigan
COMBINING STATEMENT OF NET ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2006

| | Condemnation Awards Fund | Fire Insurance Escrow Fund | Other Agency Funds | Total |
|------------------------------------|--------------------------------|----------------------------------|--------------------------|----------------------|
| ASSETS | | | | |
| Cash..... | \$ 1,630,995 | \$ 262,637 | \$ 726,980 | \$ 2,620,612 |
| Investments..... | - | 11,112,960 | - | 11,112,960 |
| Due from Other Funds..... | - | - | - | - |
| Total Assets..... | \$ 1,630,995 | \$ 11,375,597 | \$ 726,980 | \$ 13,733,572 |
| LIABILITIES | | | | |
| Accounts Payable..... | \$ - | \$ 91,143 | \$ - | \$ 91,143 |
| Awards Payable..... | 1,630,995 | - | - | 1,630,995 |
| Advances from Outside Sources..... | - | 10,653,070 | - | 10,653,070 |
| Escrow Payable..... | - | - | 726,980 | 726,980 |
| Due to Other Funds..... | - | 631,384 | - | 631,384 |
| Total Liabilities..... | \$ 1,630,995 | \$ 11,375,597 | \$ 726,980 | \$ 13,733,572 |

See accompanying independent auditors' report

City of Detroit, Michigan
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended June 30, 2006

| | Balance June 30, 2005 | Additions | Deductions | Balance June 30, 2006 |
|-------------------------------------|--------------------------|---------------------|-------------------|--------------------------|
| Condemnation Awards Fund | | | | |
| Assets | | | | |
| Cash..... | \$ 1,425,578 | \$ 205,417 | \$ - | \$ 1,630,995 |
| Total Assets..... | <u>\$ 1,425,578</u> | <u>\$ 205,417</u> | <u>\$ -</u> | <u>\$ 1,630,995</u> |
| Liabilities | | | | |
| Accounts and Contracts Payable..... | \$ 1,425,578 | \$ 205,417 | \$ - | \$ 1,630,995 |
| Total Liabilities..... | <u>\$ 1,425,578</u> | <u>\$ 205,417</u> | <u>\$ -</u> | <u>\$ 1,630,995</u> |
| Fire Insurance Escrow Fund | | | | |
| Assets | | | | |
| Cash..... | \$ 351,826 | \$ - | \$ 89,189 | \$ 262,637 |
| Investments..... | 8,639,787 | 2,473,173 | - | 11,112,960 |
| Due from Other Funds..... | 185,281 | - | 185,281 | - |
| Total Assets..... | <u>\$ 9,176,894</u> | <u>\$ 2,473,173</u> | <u>\$ 274,470</u> | <u>\$ 11,375,597</u> |
| Liabilities | | | | |
| Accounts and Contracts Payable..... | \$ 62,743 | \$ 28,400 | \$ - | \$ 91,143 |
| Due to Other Funds..... | 238,405 | 392,979 | - | 631,384 |
| Other Liabilities..... | 8,875,746 | 1,777,324 | - | 10,653,070 |
| Total Liabilities..... | <u>\$ 9,176,894</u> | <u>\$ 2,198,703</u> | <u>\$ -</u> | <u>\$ 11,375,597</u> |
| Other Agency Funds | | | | |
| Assets | | | | |
| Cash..... | \$ 733,222 | \$ - | \$ 6,242 | \$ 726,980 |
| Total Assets..... | <u>\$ 733,222</u> | <u>\$ -</u> | <u>\$ 6,242</u> | <u>\$ 726,980</u> |
| Liabilities | | | | |
| Other Liabilities..... | \$ 733,222 | \$ - | \$ 6,242 | \$ 726,980 |
| Total Liabilities..... | <u>\$ 733,222</u> | <u>\$ -</u> | <u>\$ 6,242</u> | <u>\$ 726,980</u> |
| Total Agency Funds | | | | |
| Assets | | | | |
| Cash..... | \$ 2,510,626 | \$ 205,417 | \$ 95,431 | \$ 2,620,612 |
| Investments..... | 8,639,787 | 2,473,173 | - | 11,112,960 |
| Due from Other Funds..... | 185,281 | - | 185,281 | - |
| Total Assets..... | <u>\$ 11,335,694</u> | <u>\$ 2,678,590</u> | <u>\$ 280,712</u> | <u>\$ 13,733,572</u> |
| Liabilities | | | | |
| Accounts and Contracts Payable..... | \$ 1,488,321 | \$ 233,817 | \$ - | \$ 1,722,138 |
| Due to Other Funds..... | 238,405 | 392,979 | - | 631,384 |
| Other Liabilities..... | 9,608,968 | 1,777,324 | 6,242 | 11,380,050 |
| Total Liabilities..... | <u>\$ 11,335,694</u> | <u>\$ 2,404,120</u> | <u>\$ 6,242</u> | <u>\$ 13,733,572</u> |

See accompanying independent auditors' report

STATISTICAL SECTION

(UNAUDITED)

The Statistical Section contains:

Schedule/Description:

Financial Trends Information

1. Net Assets-Last Five Fiscal Years
2. Changes in Net Assets-Last Five Fiscal Years
3. Fund Balances, Governmental Funds-Last Ten Fiscal Years
4. Changes in Fund Balances, Governmental Funds-Last Ten Fiscal Years

Revenue Capacity Information

5. Assessed and Actual Value of Taxable Property-Last Ten Fiscal Years
6. Direct and Overlapping Property Tax Rates-Last Ten Fiscal Years
7. Principal Property Tax Payers-Current Year and Nine Years Ago
8. Property Tax Levies and Collections-Last Ten Fiscal Years

Debt Capacity Information

9. Ratios of Outstanding Debt by Type-Last Ten Fiscal Years
10. Ratios of General Bonded Debt Outstanding-Last Ten Fiscal Years
11. Direct and Overlapping Governmental Activities Debt as of June 30, 2006
12. Legal Debt Margin Information-Last Ten Fiscal Years
13. Pledged Revenue Coverage-Last Ten Fiscal Years

Demographic and Employment Information

14. Demographic and Economic Statistics-Last Ten Calendar Years
15. Principal Employers-Current Year and Ten Years Ago

Operating Information

16. Full-time Equivalent of City Employees by Function/Program-Last Ten Fiscal Years
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Schedule 1
City of Detroit, Michigan
Comprehensive Annual Financial Report
Net Assets, Last Five Fiscal Years
(In Thousands)
(Accrual Basis of Accounting)

| | Fiscal Year | |
|---|--------------------|--------------|
| | 2006 | 2005 |
| Governmental Activities | | |
| Invested in capital assets, net of related debt | \$ 603,086 | \$ 562,312 |
| Restricted | 29,492 | 30,488 |
| Unrestricted(Deficit) | (608,736) | (586,294) |
| Total governmental activities net assets | 23,842 | 6,506 |
| Business-type activities | | |
| Invested in capital assets, net of related debt | 914,032 | 1,050,443 |
| Restricted | 385,380 | 287,779 |
| Unrestricted | 377,799 | 280,770 |
| Total business-type activities net assets | 1,677,211 | 1,618,992 |
| Primary Government | | |
| Invested in capital assets, net of related debt | 1,517,118 | 1,612,755 |
| Restricted | 414,872 | 318,267 |
| Unrestricted(Deficit) | (230,937) | (305,524) |
| Total primary government net assets | \$ 1,701,053 | \$ 1,625,498 |

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years
ending June 30, 2002 through 2006

See accompanying independent auditors' report

| Fiscal Year | | |
|--------------|--------------|--------------|
| 2004 | 2003 | 2002 |
| \$ 423,119 | \$ 419,594 | \$ 366,474 |
| 85,250 | 113,243 | 69,705 |
| (315,219) | (102,285) | (1,459) |
| 193,150 | 430,552 | 434,720 |
| 1,063,418 | 1,035,281 | 1,185,981 |
| 199,037 | 120,671 | 101,577 |
| 283,586 | 326,646 | 261,176 |
| 1,546,041 | 1,482,598 | 1,548,734 |
| 1,486,537 | 1,454,875 | 1,552,455 |
| 284,287 | 233,914 | 171,282 |
| (31,633) | 224,361 | 259,717 |
| \$ 1,739,191 | \$ 1,913,150 | \$ 1,983,454 |

Schedule 2
City of Detroit, Michigan
Changes in Net Assets, Last Five Fiscal Years
(Accrual Basis of Accounting)

| | Fiscal Year | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Expenses | | | | | |
| Governmental Activities: | | | | | |
| Public Protection | \$ 681,052,276 | \$ 876,156,606 | \$ 755,816,119 | \$ 593,346,429 | \$ 583,268,178 |
| Health | 177,363,962 | 170,039,930 | 172,601,779 | 194,876,044 | 178,170,414 |
| Recreation and Culture | 69,192,054 | 75,145,276 | 82,148,669 | 81,400,879 | 82,648,072 |
| Economic Development | 95,641,855 | 114,865,586 | 102,680,484 | 102,939,042 | 87,326,910 |
| Education | 64,670,870 | 73,770,757 | 95,655,097 | 85,957,839 | 86,031,311 |
| Housing Supply and Conditions | 14,737,981 | 17,980,767 | 21,190,178 | 18,566,688 | 16,780,370 |
| Physical Environment | 243,949,975 | 277,305,834 | 267,232,775 | 273,247,867 | 301,889,519 |
| Transportation | 79,343,398 | 46,272,594 | 49,857,971 | 44,217,658 | 21,087,215 |
| Development and Management | 240,246,357 | 214,746,647 | 350,969,773 | 371,360,739 | 299,360,664 |
| Interest on Long-Term Debt | 126,659,186 | 65,252,896 | 58,080,402 | 44,661,255 | 42,441,532 |
| Total Government Activities Expenses | 1,792,857,914 | 1,931,536,893 | 1,956,233,247 | 1,810,574,440 | 1,699,004,185 |
| Business-type Activities: | | | | | |
| Sewage Disposal | 311,303,765 | 192,421,480 | 186,979,859 | 261,671,404 | 261,213,329 |
| Transportation | 190,358,944 | 204,913,780 | 206,319,905 | 196,162,781 | 187,415,767 |
| Water | 282,149,274 | 195,085,657 | 198,120,130 | 249,329,295 | 232,528,496 |
| Automobile Parking | 19,474,446 | 26,295,677 | 21,990,714 | 21,534,236 | 17,833,061 |
| Airport | 3,044,030 | 3,140,746 | 4,030,607 | 3,845,438 | 5,543,048 |
| Housing | - | - | - | 75,784,985 | 67,818,451 |
| Total Business-type Activities Expenses | 806,330,459 | 621,857,340 | 617,441,215 | 808,328,139 | 772,352,152 |
| Total Primary Government Expenses | 2,599,188,373 | 2,553,394,233 | 2,573,674,462 | 2,618,902,579 | 2,471,356,337 |
| Program Revenues | | | | | |
| Governmental Activities: | | | | | |
| Charges for Services: | | | | | |
| Public Protection | 51,757,423 | 90,825,019 | 88,817,490 | 68,146,542 | 72,722,670 |
| Health | 14,224,550 | 13,026,677 | 11,875,150 | 17,535,790 | 11,524,837 |
| Recreation and Culture | 27,367,110 | 11,474,294 | 10,363,646 | 8,859,373 | 13,301,976 |
| Economic Development | 13,946,969 | 5,427,118 | 20,512,694 | 20,089,274 | 28,095,737 |
| Education | - | - | - | - | - |
| Housing Supply and Conditions | 1,636,711 | 6,700,117 | 16,617,400 | 33,624,540 | 20,224,369 |
| Physical Environment | 74,915,029 | 81,944,899 | 85,667,448 | 102,937,079 | 88,338,713 |
| Transportation | 1,355 | - | - | - | - |
| Development and Management | 156,799,556 | 198,570,684 | 84,682,688 | 19,590,685 | 73,668,036 |
| Interest on Long-Term Debt | - | - | - | - | - |
| Operation Grants and Contributions | 245,061,788 | 246,248,865 | 315,321,964 | 365,857,900 | 398,262,378 |
| Capital Grants and Contributions | 91,806,940 | 135,504,749 | 115,528,611 | 35,557,492 | 26,809,665 |
| Total Governmental Activities Program Revenues | 677,517,431 | 789,722,422 | 749,387,091 | 672,198,675 | 732,948,381 |
| Business-type Activities: | | | | | |
| Charges for services: | | | | | |
| Sewage Disposal | 354,455,204 | 254,350,136 | 195,947,900 | 288,111,143 | 267,993,505 |
| Transportation | 25,173,805 | 22,959,490 | 24,712,839 | 25,182,188 | 24,084,896 |
| Water | 276,230,766 | 193,954,987 | 223,092,260 | 244,781,888 | 209,227,939 |
| Automobile Parking | 21,125,510 | 13,627,650 | 19,618,019 | 19,253,924 | 20,682,973 |
| Airport | 989,722 | 1,180,584 | 972,659 | 1,193,786 | 2,235,228 |
| Housing | - | - | - | 12,490,749 | 9,877,521 |
| Operating grants and contributions | 73,801,668 | 88,110,603 | 89,345,418 | 115,981,521 | 111,302,571 |
| Capital grants and contributions | 9,502,218 | 15,080,720 | 33,758,751 | 41,632,443 | 56,035,404 |
| Total Business-type Activities Program Revenues | 761,278,893 | 589,264,170 | 587,447,846 | 748,627,642 | 701,440,037 |
| Total Primary Government Program Revenues | 1,438,796,324 | 1,378,986,592 | 1,336,834,937 | 1,420,826,317 | 1,434,388,418 |

See accompanying independent auditors' report

Schedule 2
City of Detroit, Michigan
Changes in Net Assets, Last Five Fiscal Years
(Accrual Basis of Accounting)

| | Fiscal Year | | | | |
|---|------------------------|-------------------------|-------------------------|------------------------|------------------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Net (Expense) Revenue | | | | | |
| Governmental Activities | (1,115,340,483) | (1,141,814,471) | (1,206,846,156) | (1,138,375,765) | (966,055,804) |
| Business-type Activities | (45,051,566) | (32,593,170) | (29,993,369) | (59,700,497) | (70,912,115) |
| Total Primary Government Net Expense | (1,160,392,049) | (1,174,407,641) | (1,236,839,525) | (1,198,076,262) | (1,036,967,919) |
| General Revenues and Other Changes in Net Assets | | | | | |
| Governmental Activities: | | | | | |
| Interest and Penalty on taxes | 9,181,155 | 11,712,960 | 13,780,520 | 9,311,836 | 10,783,829 |
| Investment earnings | 18,396,691 | 14,464,802 | 4,500,270 | 5,690,589 | 18,146,740 |
| Miscellaneous revenue | 22,780,845 | 9,984,374 | 13,624,695 | 7,758,701 | 21,179,610 |
| Gain (Loss) on disposal of capital assets | (308,855) | (3,551,036) | (451,750) | 6,753,937 | - |
| Special Item-Casino Dev Revenue | - | - | - | 132,000,000 | - |
| Transfers | (35,227,632) | (89,585,306) | (77,108,036) | (79,275,808) | (85,569,251) |
| Total Governmental Activities | 1,132,677,388 | 955,170,778 | 969,444,247 | 1,134,206,927 | 1,036,773,332 |
| Business-type Activities | | | | | |
| Investment earnings | 39,193,811 | 22,808,775 | 12,516,207 | 18,645,400 | 28,789,163 |
| Miscellaneous revenue(expense) | 2,879,273 | (6,850,110) | 3,812,743 | 4,488,833 | 3,509,544 |
| Gain(loss)on disposal of capital assets | 25,970,429 | - | - | (682,409) | - |
| Transfers | 35,227,632 | 89,585,306 | 77,108,036 | 79,275,808 | 85,569,251 |
| Total Business-type Activities | 103,271,145 | 105,543,971 | 93,436,986 | 101,727,632 | 117,867,958 |
| Total Primary Government | 1,235,948,533 | 1,060,714,749 | 1,062,881,233 | 1,235,934,559 | 1,154,641,290 |
| Changes in Net Assets | | | | | |
| Governmental Activities | 17,336,905 | (186,643,693) | (237,401,909) | (4,168,838) | 70,717,528 |
| Business-type Activities | 58,219,579 | 72,950,801 | 63,443,617 | 42,027,135 | 46,955,843 |
| Total Primary Government | \$ 75,556,484 | \$ (113,692,892) | \$ (173,958,292) | \$ 37,858,297 | \$ 117,673,371 |

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years ending June 30, 2002 through 2006

Schedule 3
City of Detroit, Michigan
Comprehensive Annual Financial Report
Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

| | Fiscal Year | | | | |
|------------------------------------|------------------|-----------------|----------------|----------------|----------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| General Fund: | | | | | |
| Reserved | \$ 66,502,619 | \$ 121,809,601 | \$ 164,248,792 | \$ 209,367,618 | \$ 163,780,306 |
| Unreserved (deficit) | (173,678,707) | (155,404,035) | (95,032,523) | (69,063,211) | 42,440,056 |
| Total General Fund | \$ (107,176,088) | \$ (33,594,434) | \$ 69,216,269 | \$ 140,304,407 | \$ 206,220,362 |
| All Other Governmental Funds: | | | | | |
| Reserved: | | | | | |
| Special Revenue Funds | 15,949,234 | 16,200,255 | 14,651,219 | 12,619,793 | 10,196,771 |
| Capital Projects Fund | 134,433,861 | 139,812,882 | 159,136,549 | 181,966,978 | 155,199,431 |
| Debt Service Funds | 27,799,931 | 29,061,404 | 70,466,781 | 42,773,395 | 46,953,417 |
| Total Reserved | \$ 178,183,026 | \$ 185,074,541 | \$ 244,254,549 | \$ 237,360,166 | \$ 212,349,619 |
| Unreserved: | | | | | |
| Special Revenue Funds | 77,241,086 | 76,896,645 | 74,394,377 | 78,730,702 | 69,551,548 |
| Capital Projects Fund | - | - | - | - | - |
| Debt Service Funds | - | - | - | - | - |
| Total Unreserved | 77,241,086 | 76,896,645 | 74,394,377 | 78,730,702 | 69,551,548 |
| Total All Other Governmental Funds | \$ 255,424,112 | \$ 261,971,186 | \$ 318,648,926 | \$ 316,090,868 | \$ 281,901,167 |

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years ending June 30, 2002 through 2006

See accompanying independent auditors' report

| Fiscal Year | | | | | | |
|----------------|----------------|----------------|----------------|----------------|----------------|--|
| 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | |
| \$ 174,840,303 | \$ 151,158,816 | \$ 163,117,742 | \$ 144,711,344 | \$ 95,312,365 | \$ 102,566,454 | |
| 43,250,036 | 65,927,526 | 71,130,077 | 102,184,663 | 105,299,801 | 103,625,053 | |
| \$ 218,090,339 | \$ 217,086,342 | \$ 234,247,819 | \$ 246,896,007 | \$ 200,612,166 | \$ 206,191,507 | |
| | | | | | | |
| 89,900,511 | 61,853,773 | 52,960,043 | 63,573,767 | 78,390,989 | 88,357,322 | |
| 38,509,612 | 16,285,528 | 16,285,528 | 17,630,045 | 16,771,060 | 16,285,528 | |
| 1,354,725 | 711,564 | 1,901,814 | - | - | - | |
| \$ 129,764,848 | \$ 78,850,865 | \$ 71,147,385 | \$ 81,203,812 | \$ 95,162,049 | \$ 104,642,850 | |
| | | | | | | |
| 2,090,991 | 8,646,105 | 5,108,031 | 4,628,256 | 2,686,959 | 5,325,138 | |
| 110,790,874 | 239,680,261 | 148,761,677 | 118,595,677 | 108,216,898 | 114,438,010 | |
| 49,993 | 1,326,889 | 2,702,823 | 6,825,753 | 6,578,979 | 11,087,121 | |
| 112,931,858 | 249,653,255 | 156,572,531 | 130,049,686 | 117,482,836 | 130,850,269 | |
| \$ 242,696,706 | \$ 328,504,120 | \$ 227,719,916 | \$ 211,253,498 | \$ 212,644,885 | \$ 235,493,119 | |

Schedule 4
City of Detroit, Michigan
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

| | Fiscal Year | | | | |
|--|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Revenues | | | | | |
| Taxes: | | | | | |
| Property Taxes..... | \$ 243,621,932 | \$ 238,771,142 | \$ 249,372,955 | \$ 224,290,723 | \$ 235,867,542 |
| Municipal Income Tax..... | 284,111,220 | 282,501,875 | 290,614,837 | 310,935,044 | 323,515,510 |
| Utility Users' Tax..... | 60,019,626 | 52,939,839 | 50,473,815 | 55,329,177 | 52,105,772 |
| Wagering Taxes..... | 156,588,917 | 137,970,347 | 116,145,598 | 111,341,292 | 109,461,713 |
| Gas and Weight Tax..... | 62,804,995 | 63,476,425 | 65,806,351 | 61,048,895 | 60,765,471 |
| Other Taxes and Assessments..... | 13,583,421 | 13,565,118 | 14,911,156 | 17,015,374 | 16,988,370 |
| State Hotel and Liquor Tax..... | 16,287,676 | 16,310,767 | 16,217,263 | 16,217,213 | 16,278,163 |
| State Shared Taxes..... | 279,467,063 | 282,914,217 | 286,479,535 | 319,055,457 | 333,763,510 |
| Shared Taxes-Liquor and Beer Licenses..... | 1,351,158 | 602,582 | 528,355 | 538,537 | 529,987 |
| Interest and Penalties on Taxes..... | 9,181,155 | 11,491,470 | 13,969,136 | 9,311,836 | 10,783,829 |
| Licenses, Permits and Inspection Charges..... | 34,233,992 | 35,006,518 | 29,463,914 | 24,881,416 | 24,857,012 |
| Intergovernmental: | | | | | |
| Federal..... | 218,119,145 | 276,372,474 | 253,620,853 | 246,941,389 | 267,557,341 |
| State..... | 75,774,530 | 36,867,375 | 64,707,175 | 59,912,152 | 51,267,772 |
| Health..... | - | - | - | - | - |
| State Equity Grant..... | - | 1,076,931 | 982,701 | 2,066,684 | - |
| Other..... | 25,192,384 | 16,346,773 | 36,215,990 | 31,345,358 | 29,203,296 |
| Sales and Charges for Services..... | 189,253,428 | 183,294,833 | 190,928,138 | 174,532,811 | 203,321,599 |
| Ordinance Fines..... | 21,525,257 | 27,481,642 | 28,237,898 | 24,146,924 | 28,373,589 |
| Revenue from Use of Assets..... | 22,780,845 | 16,782,057 | 28,696,431 | 31,883,204 | 21,771,275 |
| Earnings on Investments..... | 18,396,691 | 14,464,802 | 4,500,270 | 5,690,589 | 18,146,740 |
| Other Revenue..... | 106,521,883 | 131,657,892 | 124,787,604 | 102,385,529 | 142,977,087 |
| Total Revenues..... | 1,838,815,318 | 1,839,895,079 | 1,866,659,975 | 1,828,869,604 | 1,947,535,578 |
| Expenditures | | | | | |
| Current: | | | | | |
| Public Protection..... | 687,251,414 | 1,423,581,547 | 738,330,832 | 609,579,375 | 601,013,576 |
| Health..... | 177,723,221 | 197,473,468 | 172,301,527 | 194,570,040 | 177,825,606 |
| Recreation and Culture..... | 55,390,716 | 99,296,179 | 73,769,563 | 78,478,378 | 79,786,788 |
| Economic Development-Civic Center..... | 88,424,272 | 99,655,593 | 96,272,459 | 96,998,290 | 80,957,396 |
| Educational Development..... | 64,427,129 | 77,259,012 | 95,579,152 | 85,853,927 | 85,515,642 |
| Housing Supply and Conditions..... | 14,786,461 | 27,863,296 | 21,150,047 | 18,534,603 | 16,747,351 |
| Physical Environment..... | 220,208,683 | 301,784,627 | 232,268,536 | 252,006,036 | 292,579,453 |
| Transportation Facilitation..... | 79,343,398 | 46,272,594 | 49,857,971 | 44,217,637 | 21,087,215 |
| Development and Management..... | 233,297,837 | 495,348,897 | 387,713,093 | 399,417,971 | 354,174,726 |
| Debt Service: | | | | | |
| Principal..... | 88,150,364 | 73,544,336 | 81,450,470 | 86,770,163 | 79,568,844 |
| Interest..... | 120,956,704 | 51,462,415 | 53,075,658 | 43,761,038 | 42,442,667 |
| Bond Issuance Costs..... | 2,200,024 | 7,492,519 | 5,591,428 | 1,652,845 | 2,571,220 |
| Bond Issuance Costs-POC..... | 53,946,985 | 36,769,986 | - | - | - |
| Capital Outlay..... | 175,169,666 | 282,545,708 | 162,593,794 | 69,605,285 | 117,575,095 |
| Total Expenditures..... | 2,061,276,874 | 3,220,350,177 | 2,169,954,530 | 1,981,445,608 | 1,951,845,579 |
| Excess (Deficiency) of Revenues Over Expenditures.... | (222,461,556) | (1,380,455,098) | (303,294,555) | (152,576,004) | (4,310,001) |
| Other Financing Sources(Uses) | | | | | |
| Sources: | | | | | |
| Transfers In..... | 129,799,480 | 141,075,789 | 162,683,542 | 126,941,018 | 170,584,496 |
| Pension Obligation Certificates Issued..... | 771,087,137 | 1,170,607,421 | - | - | - |
| Swap Termination Fee..... | 38,969,807 | - | - | - | - |
| Proceeds of Section 108 Federal Note..... | 1,800,000 | 7,789,000 | - | - | 50,326,480 |
| Proceeds of Capital Leases..... | 34,892,659 | 315,351 | 24,541,150 | 113,530,000 | 105,323,533 |
| Proceeds from Debt Issuance..... | 81,903,071 | 353,830,000 | 347,398,138 | 5,161,762 | - |
| Premium from Debt Issuance..... | 3,778,114 | 13,014,675 | 18,570,675 | - | 1,628,598 |
| Total Other Financing Sources..... | 1,062,230,268 | 1,686,632,236 | 553,193,505 | 245,632,780 | 327,863,107 |
| Uses: | | | | | |
| Transfers Out..... | 165,027,112 | 230,661,095 | 239,791,578 | 206,216,826 | 256,153,747 |
| Principal Paid to Bond Agent for Refunded Bonds.. | 764,864,391 | 161,800,000 | 120,725,000 | - | 49,428,274 |
| Interest Paid to Bond Agent for Refunded Bonds..... | 1,741,161 | 10,865,420 | 2,847,682 | - | - |
| Total Other Financing Uses..... | 931,632,664 | 403,326,515 | 363,364,260 | 206,216,826 | 305,582,021 |
| Total Other Financing Sources (Uses)..... | 130,597,604 | 1,283,305,721 | 189,829,245 | 39,415,954 | 22,281,086 |
| Special Item-Casino Development Revenue..... | - | - | 38,250,000 | 93,750,000 | - |
| Net Change in Fund Balances..... | (91,863,952) | (97,149,377) | (75,215,310) | (19,410,050) | 17,971,085 |
| Fund Balance at Beginning of Year..... | 275,260,877 | 387,865,195 | 456,395,275 | 489,280,075 | 465,094,880 |
| Prior Year Adjustment/Accounting Change..... | - | - | - | - | - |
| Increase (Decrease) in Inventories..... | (10,193,120) | (15,454,941) | 6,685,230 | (13,474,750) | 6,214,110 |
| Fund Balance at End of Year..... | \$ 173,203,805 | \$ 275,260,877 | \$ 387,865,195 | \$ 456,395,275 | \$ 489,280,075 |

Source: City of Detroit, Comprehensive Annual Financial Reports for Fiscal Years ending June 30, 2002 through 2006

See accompanying independent auditors' report

| Fiscal Year | | | | | | |
|----------------|----------------|----------------|----------------|----------------|----------------|--|
| 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | |
| \$ 152,810,738 | \$ - | \$ 145,459,046 | \$ 144,067,977 | \$ 140,446,673 | \$ - | |
| 341,003,997 | - | 370,417,475 | 361,603,692 | 332,899,906 | - | |
| 54,270,230 | - | 50,924,267 | 50,144,609 | 54,641,394 | - | |
| 85,793,174 | - | - | - | - | - | |
| 12,499,740 | - | - | - | - | - | |
| 8,030,323 | - | 9,195,526 | 6,973,339 | 6,960,812 | - | |
| - | - | - | - | 528,998 | - | |
| 642,765,516 | 720,737,381 | 256,272,168 | 552,415,552 | 525,714,856 | 601,639,172 | |
| 547,690 | - | 332,532,167 | 514,570 | - | - | |
| 25,922,264 | 681,474,492 | 25,528,020 | 24,555,923 | 23,574,184 | 554,851,510 | |
| 28,824,236 | 29,828,990 | 24,426,007 | 23,726,467 | 20,722,144 | 17,959,870 | |
| 54,199,190 | - | - | - | - | - | |
| - | - | - | - | - | - | |
| - | - | 55,284,508 | 53,162,951 | 61,597,589 | - | |
| 3,551,318 | - | 3,546,856 | 3,869,575 | 9,760,531 | - | |
| 19,542,437 | - | 12,363,788 | 10,071,438 | 1,546,909 | - | |
| 185,731,909 | 176,947,615 | 150,481,902 | 148,216,907 | 141,088,917 | 131,684,362 | |
| 22,151,403 | 23,573,391 | 20,032,430 | 19,885,228 | 17,313,987 | 18,355,844 | |
| 45,012,837 | 32,090,957 | 30,004,368 | 4,787,248 | 3,684,549 | 27,880,913 | |
| - | - | - | 20,398,784 | 15,876,808 | - | |
| 89,229,509 | 57,512,847 | 75,669,129 | 106,185,757 | 111,277,005 | 73,226,864 | |
| 1,771,886,511 | 1,722,165,673 | 1,562,137,657 | 1,530,580,017 | 1,467,635,262 | 1,425,598,535 | |
| | | | | | | |
| 598,723,406 | 531,139,943 | 502,979,585 | 516,515,695 | 510,304,544 | 498,619,723 | |
| 170,702,663 | 164,662,410 | 140,777,448 | 146,389,152 | 146,563,422 | 131,141,794 | |
| 67,393,419 | 68,698,607 | 65,077,273 | 70,908,502 | 68,493,714 | 67,437,428 | |
| 137,219,929 | 132,876,688 | 83,907,140 | 67,465,511 | 73,366,551 | 58,661,483 | |
| 49,543,144 | 28,894,210 | 29,084,169 | 25,778,840 | 28,027,004 | 24,893,174 | |
| 96,392,546 | 85,720,446 | 74,866,247 | 74,808,911 | 63,262,506 | 77,209,932 | |
| 275,368,548 | 282,839,381 | 242,808,604 | 274,823,524 | 259,858,062 | 225,414,174 | |
| 15,786,893 | 9,807,924 | 38,892,162 | 21,735,337 | 12,398,370 | 10,539,714 | |
| 250,911,948 | 328,474,911 | 322,394,661 | 246,876,487 | 193,004,802 | 204,304,800 | |
| - | - | - | - | - | - | |
| - | - | - | - | - | - | |
| - | - | - | - | - | - | |
| - | - | - | - | - | - | |
| - | - | - | - | - | - | |
| 1,662,042,496 | 1,633,114,520 | 1,500,787,289 | 1,445,301,959 | 1,355,278,975 | 1,298,222,222 | |
| 109,844,015 | 89,051,153 | 61,350,368 | 85,278,058 | 112,356,287 | 127,376,313 | |
| | | | | | | |
| 113,782,958 | 114,728,450 | 158,791,282 | 107,178,870 | 110,271,130 | 291,701,326 | |
| - | - | - | - | - | - | |
| - | - | - | - | - | - | |
| - | - | - | - | - | - | |
| - | - | - | - | - | - | |
| - | 34,698,568 | 253,477 | 93,701,620 | - | - | |
| - | - | - | - | - | - | |
| 113,782,958 | 149,427,018 | 159,044,759 | 200,880,490 | 110,271,130 | 291,701,326 | |
| | | | | | | |
| 239,882,675 | 224,493,716 | 255,286,600 | 221,354,837 | 221,110,801 | 161,695,514 | |
| - | - | - | 36,845,058 | 23,012,698 | 241,252,475 | |
| - | 11,024,254 | - | - | - | - | |
| 239,882,675 | 235,517,970 | 255,286,600 | 258,199,895 | 244,123,499 | 402,947,989 | |
| (126,099,717) | (86,090,952) | (96,241,841) | (57,319,405) | (133,852,369) | (111,246,663) | |
| - | - | - | - | - | - | |
| (16,255,702) | 2,960,201 | (34,891,473) | 27,958,653 | (21,496,082) | 16,129,650 | |
| 287,586,219 | 292,315,892 | 315,098,030 | 281,690,114 | 299,873,967 | 283,508,718 | |
| 40,952,333 | - | - | (2,394,689) | - | - | |
| (2,201,010) | (7,689,874) | 12,109,335 | 7,843,952 | 3,312,229 | 235,599 | |
| \$ 310,081,840 | \$ 287,586,219 | \$ 292,315,892 | \$ 315,098,030 | \$ 281,690,114 | \$ 299,873,967 | |

Schedule 5
City of Detroit, Michigan
Comprehensive Annual Financial Report
Assessed Value and Actual Value of Taxable Property,
Last Ten Fiscal Years
(in thousands of dollars)
(Unaudited)

| Fiscal Year Ended June 30, | Residential Property | Commercial Property | Industrial Property |
|---|---------------------------------|--------------------------------|--------------------------------|
| 2006 | \$ 5,466,363 | \$ 2,224,241 | \$ 1,747,156 |
| 2005 | 5,199,563 | 2,250,988 | 1,636,990 |
| 2004 | 4,807,657 | 2,211,681 | 1,689,508 |
| 2003 | 4,636,278 | 2,264,798 | 1,899,213 |
| 2002 | N/A | N/A | N/A |
| 2001 | N/A | N/A | N/A |
| 2000 | N/A | N/A | N/A |
| 1999 | N/A | N/A | N/A |
| 1998 | N/A | N/A | N/A |
| 1997 | N/A | N/A | N/A |

Source: City of Detroit, Finance Department -Assessor's Office (Only total taxable values are available for fiscal years 1997 to 2002)

| Total Taxable Assessed Value | | Total Direct Tax Rate (Per thousand of taxable value) |
|---|-----------|--|
| <hr/> | | <hr/> |
| \$ | 9,437,760 | 30.02 |
| | 9,087,541 | 30.44 |
| | 8,708,846 | 30.88 |
| | 8,800,289 | 30.88 |
| | 7,639,805 | 31.90 |
| | 7,204,381 | 31.68 |
| | 6,856,682 | 31.10 |
| | 6,631,616 | 31.18 |
| | 6,450,577 | 31.24 |
| | 6,147,618 | 31.28 |

Schedule 6
City of Detroit, Michigan
Comprehensive Annual Financial Report
Direct and Overlapping Property Tax Rates,
Last Ten Fiscal Years
(rate per \$1,000 of assessed value)
(Unaudited)

| City Direct Rates | | | |
|--------------------------|------------------------------------|-------------------------|-------------------------|
| Fiscal Year | Basic General City Rate | Debt Service | Total Direct |
| 2006 | 22.9448 | 7.0753 | 30.0201 |
| 2005 | 22.9563 | 7.4796 | 30.4359 |
| 2004 | 22.9563 | 7.9245 | 30.8808 |
| 2003 | 22.9563 | 7.9217 | 30.8780 |
| 2002 | 22.9563 | 8.9437 | 31.9000 |
| 2001 | 22.9563 | 8.7220 | 31.6783 |
| 2000 | 23.0000 | 8.0950 | 31.0950 |
| 1999 | 23.0000 | 8.1750 | 31.1750 |
| 1998 | 23.0000 | 8.2380 | 31.2380 |
| 1997 | 23.0000 | 8.2830 | 31.2830 |

Source: City of Detroit, June 30, 2005 Comprehensive Annual
Financial Report (Table 6) & City of Detroit's Budget
Department (Red Books for 1997 through 2006)

Overlapping Rates

| Detroit Public Schools | | Library | County | State Education Tax |
|------------------------|---------------|---------|---------|------------------------|
| Homestead | Non-Homestead | | | |
| 13.0700 | 30.6236 | 4.6307 | 13.9778 | 6.0000 |
| 13.0000 | 31.0000 | 3.6331 | 13.9861 | 6.0000 |
| 13.8000 | 31.8000 | 3.6331 | 13.9886 | 5.0000 |
| 13.1900 | 31.1900 | 3.6331 | 13.9895 | 6.0000 |
| 10.5000 | 28.5000 | 3.6331 | 12.5395 | 6.0000 |
| 7.0000 | 25.0000 | 3.6331 | 11.0565 | 6.0000 |
| 5.9000 | 23.9000 | 2.6400 | 11.1390 | 6.0000 |
| 6.4500 | 24.4500 | 2.6400 | 11.3200 | 6.0000 |
| 7.5900 | 25.5900 | 2.6400 | 11.3700 | 6.0000 |
| 7.5000 | 25.5000 | 2.6400 | 11.3800 | 6.0000 |

Schedule 7
City of Detroit, Michigan
Comprehensive Annual Financial Report
Principal Property Tax Payers,
Current Year and Nine Years Ago
(Taxable Assessed Value-Expressed in thousands)
(Unaudited)

| Taxpayer | 2006 | | |
|------------------------------------|---------------------------------------|------|--|
| | Taxable Assessed Value (Note 1) | Rank | Percentage of Total City Taxable Assessed Value (Note 2) |
| Dailmer-Chrysler Corporation | \$ 709,126 | 1 | 7.51% |
| Detroit Edison | 332,956 | 2 | 3.53 |
| General Motors Corporation | 188,179 | 3 | 1.99 |
| Marathon Oil/Ashland Petroleum LLC | 147,481 | 4 | 1.56 |
| Riverfront Holding Inc. | 135,344 | 5 | 1.43 |
| American Axle & Manufacturing | 105,233 | 6 | 1.12 |
| Michigan Consolidated Gas | 84,347 | 7 | 0.89 |
| MGM Grand Detroit LLC | 61,013 | 8 | 0.65 |
| One Detroit Center LP | 46,654 | 9 | 0.49 |
| Greektown Casino LLC | 42,983 | 10 | 0.46 |
| Ren. Cen. Venture | N/A | N/A | N/A |
| Ford Motor Company | N/A | N/A | N/A |
| American Natural Resource | N/A | N/A | N/A |
| Trizec Properties | N/A | N/A | N/A |

Note 1 Source: City of Detroit -Assessor's Office

Note 2 Source: City of Detroit, Finance Department-Assessor's Office(Percent of total assessed property value of \$9,437,760,000

Note 3 Source: City of Detroit, June 30, 1997 Comprehensive Annual Financial Report(Exhibit AA-14)

| 1997 (Note 3) | | | |
|------------------------------|---------|------|---|
| Taxable Assessed Value | | Rank | Percentage of Total City Taxable Assessed Value |
| \$ | 370,598 | 1 | 5.80% |
| | 299,764 | 2 | 4.69 |
| | 208,635 | 3 | 3.27 |
| | N/A | N/A | N/A |
| | N/A | N/A | N/A |
| | 93,659 | 5 | 1.47 |
| | 168,468 | 4 | 2.64 |
| | N/A | N/A | N/A |
| | 54,883 | 6 | 0.86 |
| | N/A | N/A | N/A |
| | 49,645 | 7 | 0.78 |
| | 41,072 | 8 | 0.64 |
| | 34,304 | 9 | 0.54 |
| | 31,416 | 10 | 0.49 |

Schedule 8
City of Detroit, Michigan
Comprehensive Annual Financial Report
Property Tax Levies and Collections,
Last Ten Fiscal Years (Amounts Expressed in Thousands)
(Unaudited)

| Fiscal Year ended June 30, | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of the Levy | |
|---|---|---|-------------------------------|
| | | Amount | Percentage of Levy |
| 2006 | \$ 263,532 | \$ 244,189 | 92.66% |
| 2005 | 254,533 | 238,059 | 93.53 |
| 2004 | 242,235 | 231,696 | 95.65 |
| 2003 | 246,284 | 207,628 | 84.30 |
| 2002 | 243,710 | 212,435 | 87.17 |
| 2001 | 254,397 | 218,915 | 86.05 |
| 2000 | 231,310 | 210,805 | 91.14 |
| 1999 | 224,248 | 199,594 | 89.01 |
| 1998 | 218,533 | 193,536 | 88.56 |
| 1997 | 208,546 | 189,097 | 90.67 |

Source: City of Detroit, Finance Dept. - Treasury Division

| Total Collections to Date | | | |
|--|--------|---------------|-------------------------------|
| Collections in Subsequent Years | | Amount | Percentage of Levy |
| \$ | 2,493 | \$ 246,682 | 93.61 % |
| | 8,942 | 247,001 | 97.04 |
| | 17,677 | 249,373 | 102.95 |
| | 16,663 | 224,291 | 91.07 |
| | 23,433 | 235,868 | 96.78 |
| | 15,854 | 234,769 | 92.28 |
| | 17,606 | 228,411 | 98.75 |
| | 14,302 | 213,896 | 95.38 |
| | 15,832 | 209,368 | 95.81 |
| | 15,028 | 204,125 | 97.88 |

Schedule 9
City of Detroit, Michigan
Comprehensive Annual Financial Report
Ratios of Outstanding Debt by Type,
Last Ten Fiscal Years
(dollars in thousands, except per capita)
(Unaudited)

Governmental Activities (Note 1)

| Fiscal Year | General Bonds | Detroit Building Authority Bonds |
|------------------------|--------------------------|---|
| 2006 | \$ 953,275 | \$ 8,322 |
| 2005 | 967,895 | 9,922 |
| 2004 | 827,370 | 11,414 |
| 2003 | 654,625 | 12,780 |
| 2002 | 602,400 | 13,859 |
| 2001 | 540,535 | 15,097 |
| 2000 | 584,805 | 16,240 |
| 1999 | 573,970 | 17,297 |
| 1998 | 570,180 | 17,910 |
| 1997 | 562,950 | 17,910 |

Note 1 Source: City of Detroit - Comprehensive Annual Financial Report for fiscal year ended June 30, 1997 through 2006

Note 2 Source: City of Detroit - Comprehensive Annual Financial Report for fiscal year ended June 30, 2005 (population pg. 143, Table 8), Per Capita Calculations exclude Business Type Debt

| Business-Type Activities (Note 1) | | | | | |
|---|--|---|---|-----------------------------------|--|
| Sewage Disposal System Revenue Bonds | Water Supply System Revenue Bonds | Automobile Parking Revenue Refunding Bonds | Total Primary Government | Per Capita (Note2) | |
| \$ 2,657,446 | \$ 1,971,744 | \$ 54,230 | \$ 5,645,017 | \$ 1,010.86 | |
| 2,653,827 | 1,991,615 | 60,845 | 5,684,104 | 1,027.91 | |
| 2,375,153 | 1,713,435 | 67,100 | 4,994,472 | 881.75 | |
| 2,311,621 | 1,718,985 | 73,015 | 4,771,026 | 701.59 | |
| 1,721,185 | 1,313,570 | 78,520 | 3,729,534 | 647.83 | |
| 1,200,362 | 1,331,710 | 83,930 | 3,171,634 | 584.09 | |
| 1,120,136 | 923,365 | 88,570 | 2,733,116 | 631.83 | |
| 791,061 | 679,166 | 63,055 | 2,124,549 | 591.11 | |
| 800,452 | 690,301 | 39,475 | 2,118,318 | 587.93 | |
| 572,354 | 492,306 | 40,745 | 1,686,265 | 580.70 | |

Schedule 10
City of Detroit, Michigan
Comprehensive Annual Financial Report
Ratios of General Bonded Debt Outstanding,
Last Ten Fiscal Years
(dollars in thousands, except per capita)
(Unaudited)

| General Bonded Debt (Note 1) | | | | |
|-------------------------------------|--------------------------|---|--------------|--|
| Fiscal Year | General Bonds | Detroit Building Authority Bonds | Total | |
| 2006 | \$ 953,275 | \$ 8,322 | \$ 961,597 | |
| 2005 | 967,895 | 9,922 | 977,817 | |
| 2004 | 827,370 | 11,414 | 838,784 | |
| 2003 | 654,625 | 12,780 | 667,405 | |
| 2002 | 602,400 | 13,859 | 616,259 | |
| 2001 | 540,535 | 15,097 | 555,632 | |
| 2000 | 584,805 | 16,240 | 601,045 | |
| 1999 | 573,970 | 17,297 | 591,267 | |
| 1998 | 570,180 | 17,910 | 588,090 | |
| 1997 | 562,950 | 17,910 | 580,860 | |

Note 1 Source: City of Detroit - Comprehensive Annual Financial Report for fiscal year ended June 30, 1997 through 2006

Note 2 Source: City of Detroit - Comprehensive Annual Financial Report for fiscal year ended June 30, 2005 (total taxable property values Pg. 140, Table 5)

Note 3 Source: City of Detroit - Comprehensive Annual Financial Report for fiscal year ended June 30, 2005 (population pg. 143, Table 8)

| Percentage of Actual Taxable Value of Property (Note 2) | Per Capita (Note 3) |
|--|--------------------------------|
| 10.19 % \$ | 1,010.86 |
| 10.76 | 1,027.91 |
| 9.63 | 881.75 |
| 7.58 | 701.59 |
| 8.07 | 647.83 |
| 7.71 | 584.09 |
| 8.77 | 631.83 |
| 8.92 | 591.11 |
| 9.12 | 587.93 |
| 9.45 | 580.70 |

Schedule 11
City of Detroit, Michigan
Comprehensive Annual Financial Report
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006 (dollars in thousands)
(Unaudited)

| <u>Governmental Unit</u> | <u>Debt Outstanding</u> | <u>Estimated Percent Applicable to City of Detroit</u> | <u>Estimated Share of Overlapping Debt</u> |
|--|-----------------------------|--|--|
| Debt repaid with property taxes | | | |
| Detroit Public Schools | \$ 1,409,710 | 100.00 % | \$ 140,971,000 |
| Wayne County | 103,012 | 18.00 | 1,854,216 |
| Wayne County Community College | 59,165 | 29.00 | 1,715,785 |
| Subtotal, overlapping debt | | | <u>144,541,001</u> |
| City of Detroit direct debt | 1,178,537 | 100.00 | 117,853,700 |
| Total Direct and Overlapping Debt | | | <u><u>\$ 262,394,701</u></u> |

Source: City of Detroit Finance Dept., Debt Management Division

Schedule 12
City of Detroit, Michigan
Comprehensive Annual Financial Report
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)
(Unaudited)

| | Fiscal Year | | | | |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Debt limit | \$ 1,443,061 | \$ 1,390,749 | \$ 1,320,970 | \$ 1,315,574 | \$ 1,323,853 |
| Total net debt applicable to limit | 815,002 | 728,229 | 738,889 | 579,119 | 572,817 |
| Legal debt margin | <u>\$ 628,059</u> | <u>\$ 662,520</u> | <u>\$ 582,081</u> | <u>\$ 736,455</u> | <u>\$ 751,036</u> |
| Total net debt applicable to the limit as a percentage of debt limit | 56.48% | 52.36% | 55.94% | 44.02% | 43.27% |

Source: City of Detroit Finance Dept., Debt Management Division

| Fiscal Year | | | | |
|--------------------|-------------------|-------------------|-------------------|-------------------|
| 2001 | 2000 | 1999 | 1998 | 1997 |
| \$ 1,209,734 | \$ 1,094,584 | \$ 970,810 | \$ 853,698 | \$ 780,266 |
| 499,641 | 533,190 | 514,094 | 497,145 | 477,883 |
| <u>\$ 710,093</u> | <u>\$ 561,394</u> | <u>\$ 456,716</u> | <u>\$ 356,553</u> | <u>\$ 302,383</u> |
| 41.30% | 48.71% | 52.96% | 58.23% | 61.25% |

Schedule 13**City of Detroit, Michigan****Comprehensive Annual Financial Report****Pledged Revenue Coverage****Last Ten Fiscal Years****(dollars in thousands)****(Unaudited)**

| Sewage Disposal Revenue Bonds | | | | | | |
|--------------------------------------|---|---|--------------------------------------|---------------------|-----------------|-----------------|
| Fiscal Year | Utility/ Service Charges | Less: Operating Expenses | Net Available Revenue | Debt Service | | |
| | | | | Principal | Interest | Coverage |
| 1997 | \$203,578 | \$ 148,368 | \$ 55,210 | \$ 19,960 | \$ 24,118 | 1.25 |
| 1998 | 213,157 | 152,103 | 61,054 | 19,947 | 46,994 | 0.91 |
| 1999 | 216,031 | 156,677 | 59,354 | 17,831 | 43,988 | 0.96 |
| 2000 | 222,924 | 160,849 | 62,075 | 21,221 | 65,151 | 0.72 |
| 2001 | 252,379 | 172,283 | 80,096 | 24,880 | 60,787 | 0.93 |
| 2002 | 267,994 | 179,185 | 88,809 | 33,600 | 67,384 | 0.88 |
| 2003 | 288,111 | 167,747 | 120,364 | 38,745 | 78,868 | 1.02 |
| 2004 | 319,810 | 182,984 | 136,826 | 44,825 | 85,321 | 1.05 |
| 2005 | 313,588 | 163,401 | 150,187 | 50,035 | 82,860 | 1.13 |
| 2006 | 354,455 | 197,604 | 156,851 | 53,205 | 84,864 | 1.14 |

| Water Revenue Bonds | | | | | | |
|----------------------------|---|---|--------------------------------------|---------------------|-----------------|-----------------|
| | Utility/ Service Charges | Less: Operating Expenses | Net Available Revenue | Debt Service | | |
| | | | | Principal | Interest | Coverage |
| 1997 | \$162,897 | \$ 123,272 | \$ 39,625 | \$ 11,135 | \$ 24,455 | 1.11 |
| 1998 | 177,159 | 134,203 | 42,956 | 11,135 | 46,836 | 0.74 |
| 1999 | 185,963 | 125,855 | 60,108 | 12,141 | 45,314 | 1.05 |
| 2000 | 193,345 | 146,559 | 46,786 | 17,775 | 59,376 | 0.61 |
| 2001 | 194,445 | 146,794 | 47,651 | 18,140 | 52,688 | 0.67 |
| 2002 | 209,228 | 155,247 | 53,981 | 19,400 | 80,712 | 0.54 |
| 2003 | 244,782 | 161,365 | 83,417 | 20,145 | 89,359 | 0.76 |
| 2004 | 255,417 | 152,562 | 102,855 | 22,440 | 84,456 | 0.96 |
| 2005 | 260,613 | 156,953 | 103,660 | 24,595 | 101,782 | 0.82 |
| 2006 | 276,231 | 149,131 | 127,100 | 25,535 | 117,016 | 0.89 |

| Municipal Parking Revenue Bonds | | | | | | |
|--|---|---|--------------------------------------|---------------------|-----------------|-----------------|
| | Utility/ Service Charges | Less: Operating Expenses | Net Available Revenue | Debt Service | | |
| | | | | Principal | Interest | Coverage |
| 1997 | \$ 15,996 | \$ 7,826 | \$ 8,170 | \$ 1,975 | \$ 3,915 | 1.39 |
| 1998 | 17,001 | 8,037 | 8,964 | 3,420 | 3,765 | 1.25 |
| 1999 | 17,880 | 8,512 | 9,368 | 4,385 | 5,457 | 0.95 |
| 2000 | 19,407 | 9,407 | 10,000 | 5,140 | 6,179 | 0.88 |
| 2001 | 18,220 | 9,621 | 8,599 | 5,410 | 7,066 | 0.69 |
| 2002 | 20,683 | 9,655 | 11,028 | 5,505 | 4,272 | 1.13 |
| 2003 | 19,254 | 11,156 | 8,098 | 6,215 | 5,308 | 0.70 |
| 2004 | 19,478 | 12,295 | 7,183 | 6,255 | 6,018 | 0.59 |
| 2005 | 13,628 | 16,006 | (2,378) | 6,615 | 5,090 | (0.20) |
| 2006 | 21,126 | 10,315 | 10,811 | 7,105 | 4,243 | 0.95 |

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements - Operating expenses do not include interest, depreciation, or amortization expenses

Schedule 14
City of Detroit, Michigan
Comprehensive Annual Financial Report
Demographic and Economic Statistics,
Last Ten Calendar Years
(Unaudited)

| Year | Population (Note 1) | Per Capita Personal Income | Median Age |
|-------------|----------------------------|---|-----------------------|
| 2006 | 951,270 | 15,042 | 32.5 |
| 2005 | 951,270 | 15,042 | 32.5 |
| 2004 | 951,270 | * | * |
| 2003 | 951,270 | * | * |
| 2002 | 951,270 | * | * |
| 2001 | 951,270 | * | * |
| 2000 | 951,270 | 14,717 | 30.9 |
| 1999 | 1,000,272 | * | * |
| 1998 | 1,000,272 | * | * |
| 1997 | 1,000,272 | * | * |
| 1996 | 1,000,272 | * | * |

Note 1 Source: City of Detroit - Comprehensive Annual Financial Report for fiscal year ended June 30, 2005 (population pg. 143, Table 8)

Note 2 Source: Detroit Public Schools

Note 3 Source: City of Detroit 2006-2007 Executive Budget Summary Page D5

*Information not available

| School Enrollment (Note 2) | Unemployment Rate (Note 3) |
|---------------------------------------|---------------------------------------|
| 130,718 | 14.1% |
| 130,718 | 14.1% |
| 141,147 | 14.6 |
| 150,415 | 14.2 |
| 157,003 | 11.5 |
| 159,694 | 9.2 |
| 162,693 | 6.3 |
| 168,213 | 6.9 |
| 173,848 | 7.0 |
| 173,871 | 7.9 |
| 173,080 | 8.7 |

Schedule 15
City of Detroit, Michigan
Comprehensive Annual Financial Report
Principal Employers,
Current Year and Ten Years Ago
(Unaudited)

| Employer | 2006 (Note 1) | | |
|---|---------------|------|--|
| | Employees | Rank | Percentage of Total City Employment (Note 3) |
| General Motors Corporation | 46,399 | 1 | 14.4% |
| Henry Ford Health System | 14,299 | 2 | 4.4 |
| Detroit Medical Center | 11,118 | 3 | 3.5 |
| AT & T | 8,934 | 4 | 2.8 |
| DTE Energy Co. | 7,337 | 5 | 2.3 |
| Blue Cross and Blue Shield of Michigan | 6,715 | 6 | 2.1 |
| EDS Corp. | 6,650 | 7 | 2.1 |
| Comerica Inc. | 6,194 | 8 | 1.9 |
| DaimlerChrysler AG | N/A | N/A | N/A |
| St. John Health System | N/A | N/A | N/A |
| American Axle & Manufacturing Holdings Inc. | N/A | N/A | N/A |

Note 1 Source: Crain's Book of Lists, 2007 Edition (City of Detroit Based)

Note 2 Source: City of Detroit 1997-98 Executive Budget Summary(Page 199)

Note 3 Source (Total City employment): Michigan Department of Labor & Economic Growth (Labor Market Information)

| 1996 (Note 2) | | |
|---------------|------|---|
| Employees | Rank | Percentage of Total City Employment |
| 11,250 | 3 | 3.1% |
| 7,620 | 4 | 2.1 |
| 12,752 | 2 | 3.6 |
| N/A | N/A | N/A |
| N/A | N/A | N/A |
| N/A | N/A | N/A |
| N/A | N/A | N/A |
| N/A | N/A | N/A |
| 13,000 | 1 | 3.6 |
| 3,322 | 6 | 0.9 |
| 4,980 | 5 | 1.4 |

Schedule 16
City of Detroit, Michigan
Comprehensive Annual Financial Report
Full-time equivalent City Government Employees by Function/Program,
Last Ten Fiscal Years
(Unaudited)

| | FTE Employees as of June 30 | | | |
|--|-----------------------------|---------------|---------------|---------------|
| | 2006 | 2005 | 2004 | 2003 |
| FUNCTION/PROGRAM | | | | |
| General Governmental Agencies | | | | |
| Executive Agencies | | | | |
| Arts | 1 | 1 | 1 | 1 |
| Budget | 23 | 28 | 28 | 31 |
| Civic Center | 59 | 70 | 89 | 85 |
| Consumer Affairs | 14 | 13 | 17 | 18 |
| Cultural Affairs | - | 10 | 14 | 5 |
| Public Works | 873 | 1,226 | 1,314 | 1,420 |
| Workforce Development | 90 | 79 | 81 | 83 |
| Environmental | 21 | 23 | 29 | 27 |
| Finance | 298 | 402 | 506 | 525 |
| Fire-Civilian | 442 | 442 | 440 | 426 |
| Fire-Uniform | 1,069 | 1,281 | 1,286 | 1,368 |
| Health & Wellness Promotion | 434 | 505 | 568 | 579 |
| Historical | 6 | 24 | 39 | 41 |
| Human Resources | 174 | 232 | 266 | 285 |
| Human Rights | 7 | 19 | 25 | 21 |
| Human Services | 128 | 145 | 142 | 149 |
| Information Technology Services | 94 | 112 | 124 | 139 |
| Law | 140 | 180 | 195 | 191 |
| Mayor's Office | 59 | 97 | 100 | 96 |
| Planning and Development | 197 | 239 | 255 | 253 |
| Police-Civilian | 427 | 445 | 514 | 542 |
| Police-Uniform | 3,162 | 3,658 | 3,867 | 3,981 |
| Communication and Creative Services | - | 21 | 17 | 17 |
| Public Lighting | 228 | 254 | 281 | 299 |
| Recreation | 399 | 465 | 638 | 728 |
| Senior Citizens | 5 | 8 | 9 | 11 |
| Youth | - | - | - | - |
| Zoological Institute | 86 | 194 | 213 | 223 |
| Administrative Hearings | 5 | 4 | - | - |
| Homeland Security | 4 | 6 | - | - |
| Housing | 3 | 3 | 179 | 246 |
| Legislative Agencies | | | | |
| Auditor General | 18 | 16 | 26 | 19 |
| Board of Zoning Appeals | 11 | 13 | 15 | 15 |
| City Council | 92 | 104 | 108 | 106 |
| Ombudsman | 6 | 9 | 11 | 13 |
| City Clerk | 27 | 30 | 31 | 27 |
| Elections | 65 | 74 | 75 | 83 |
| Judiciary Agency | | | | |
| 36th District Court | 31 | 31 | 31 | 31 |
| Other Agencies | | | | |
| Non-Departmental | 41 | 44 | 29 | 26 |
| Library | 457 | 463 | 457 | 477 |
| Total General Governmental Agencies | 9,196 | 10,970 | 12,020 | 12,587 |
| Enterprise Agencies | | | | |
| Airport | 13 | 22 | 26 | 39 |
| Building and Safety | 299 | 294 | 302 | 302 |
| Department of Transportation | 1,530 | 1,588 | 1,748 | 1,779 |
| Municipal Parking | 108 | 108 | 118 | 123 |
| Water and Sewage Disposal | 2,311 | 2,592 | 2,735 | 2,942 |
| Total Enterprise Agencies | 4,261 | 4,604 | 4,929 | 5,185 |
| Grand Total | 13,457 | 15,574 | 16,949 | 17,772 |

FTE Employees as of June 30

| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---------------|---------------|---------------|---------------|---------------|---------------|
| 1 | 1 | 1 | 5 | 18 | 134 |
| 29 | 33 | 29 | 32 | 30 | 27 |
| 84 | 88 | 92 | 88 | 82 | 85 |
| 20 | 21 | 22 | 21 | 19 | 19 |
| 5 | 5 | 5 | 5 | 5 | - |
| 1,290 | 1,524 | 1,373 | 903 | 1,142 | 1,199 |
| 82 | 88 | 87 | 88 | 82 | 4 |
| 10 | 12 | 8 | 6 | - | - |
| 498 | 486 | 494 | 494 | 475 | 500 |
| 413 | 406 | 419 | 431 | 367 | 381 |
| 1,374 | 1,386 | 1,302 | 1,311 | 1,328 | 1,338 |
| 552 | 562 | 552 | 568 | 596 | 370 |
| 33 | 39 | 30 | 28 | 25 | 29 |
| 361 | 327 | 418 | 374 | 281 | 250 |
| 25 | 22 | 23 | 22 | 20 | 19 |
| 138 | 144 | 129 | 143 | 138 | - |
| 133 | 159 | 125 | 115 | 105 | 104 |
| 206 | 190 | 168 | 161 | 160 | 155 |
| 86 | 87 | 87 | 82 | 88 | 84 |
| 265 | 264 | 259 | 249 | 254 | 53 |
| 567 | 552 | 563 | 559 | 541 | 548 |
| 4,243 | 4,330 | 4,143 | 4,003 | 4,042 | 4,028 |
| 18 | 19 | 18 | 16 | 12 | 13 |
| 279 | 312 | 310 | 331 | 350 | 350 |
| 513 | 665 | 521 | 525 | 601 | 595 |
| 9 | 8 | 9 | 10 | 8 | 8 |
| 4 | 5 | 5 | - | - | - |
| 151 | 244 | 129 | 138 | 126 | 125 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 314 | 333 | 377 | 447 | 474 | 463 |
| 10 | 18 | 19 | 22 | 23 | 23 |
| 7 | 13 | 7 | 7 | 8 | 8 |
| 98 | 96 | 93 | 95 | 96 | 76 |
| 10 | 10 | 11 | 11 | 11 | 10 |
| 28 | 27 | 28 | 30 | 28 | 26 |
| 70 | 68 | 68 | 71 | 66 | 70 |
| 31 | 30 | 515 | 29 | 508 | 60 |
| 28 | 24 | - | - | - | - |
| 362 | 518 | 364 | 392 | 369 | 381 |
| 12,347 | 13,116 | 12,803 | 11,812 | 12,478 | 11,535 |
| 33 | 46 | 35 | 33 | 30 | 34 |
| 285 | 319 | 313 | 314 | 315 | 278 |
| 1,750 | 1,731 | 1,711 | 1,815 | 1,683 | 1,847 |
| 119 | 116 | 128 | 125 | 124 | 120 |
| 2,946 | 3,018 | 2,795 | 2,944 | 2,898 | 2,847 |
| 5,133 | 5,230 | 4,982 | 5,231 | 5,050 | 5,126 |
| 17,480 | 18,346 | 17,785 | 17,043 | 17,528 | 16,661 |

Schedule 17
City of Detroit, Michigan
Comprehensive Annual Financial Report
Miscellaneous Operating Indicators by Function/Program,
Last Ten Fiscal Years
(Unaudited)

| | Fiscal Year | | | |
|--|---------------|------------------|------------------|---------------|
| | 2006 | 2005 | 2004 | 2003 |
| Public Protection: | | | | |
| Police..... | | | | |
| Number of Stations (Including 16 Mini-Stations)..... | 24 | 28 | 30 | 35 |
| Number of Employees (Uniform)..... | 3,162 | 3,658 | 3,818 | 3,965 |
| Number of Traffic Violations Issued (507,573 Parking Tickets)..... | 625,711 | 736,131 | 714,517 | 761,436 |
| Number of Traffic Ordinance Violations Issued..... | 38,352 | 45,121 | 47,782 | 124,087 |
| Number of Arrests (Traffic + Others)..... | - | 79,852 | 64,539 | 86,873 |
| Fire..... | | | | |
| Number of Fire Stations..... | 48 | 49 | 49 | 47 |
| Number of Employees..... | 1,511 | 1,723 | 1,726 | 1,798 |
| Number of Fire Fighting Vehicles..... | 256 | 238 | 238 | 225 |
| Number of Fire Hydrants..... | 38,000 | 38,000 | 38,000 | 33,000 |
| Responses to Fire Alarms (Including False Alarms)..... | 33,992 | 34,160 | 34,160 | 35,690 |
| Responses to Special Calls and Emergency Medical Service Calls..... | 132,432 | 151,285 | 151,285 | 124,122 |
| Estimated Fire Loss of Property | \$ 96,771,056 | \$ 1,921,197,050 | \$ 1,921,197,050 | \$ 81,320,274 |
| Public Works..... | | | | |
| Number of Employees..... | 873 | 1,124 | 1,189 | 1,203 |
| Miles of Streets (Paved + Unpaved)..... | 2784 | 2,784 | 2,784 | 2,785 |
| Miles of Alleys (Paved + Unpaved)..... | 1284 | 1,284 | 1,264 | 1,268 |
| Miles of Sidewalks..... | 4265 | 4,265 | 4,243 | 4,247 |
| Public Lighting..... | | | | |
| Number of Street Lights..... | 88,000 | 87,500 | 87,000 | 87,000 |
| Number of Revenue Customers..... | 201 | 179 | 1,302 | 1,302 |
| Size of Generating Station in Kilowatts..... | 184,000 | 184,000 | 184,000 | 185,000 |
| Kilowatt Hours Generated (Net)..... | 256,395,400 | 308,391,000 | 253,271,700 | 220,476,700 |
| Kilowatt Hours Delivered to System..... | 634,026,280 | 567,529,080 | 541,722,900 | 542,839,900 |
| Steam Heating Plants - Steam Produced in Pounds..... | 62,306,014 | 71,852,887 | 75,226,300 | 67,976,300 |
| Recreation and Cultures..... | | | | |
| Number of Parks, Ornamental Areas, Playfields and Playgrounds Owned (5,108 Acres)..... | 391 | 391 | 391 | 391 |
| Number of Summer Camps (199 Acres)..... | 1 | 1 | 1 | 1 |
| Number of Recreation Centers, Playgrounds and School Facilities Operated..... | 30 | 30 | 30 | 110 |
| Number of Skating Rinks..... | 1 | 1 | 1 | 3 |
| Number of Swimming Pools..... | 17 | 17 | 18 | 18 |
| Number of Municipal Beaches..... | 1 | 1 | 1 | 1 |
| Total Playing Permits Issued at 6 Municipal Golf Courses..... | 269,870 | 269,870 | 269,870 | 269,870 |
| Library..... | | | | |
| Number of Libraries(Including Two Bookmobiles)..... | 27 | 27 | 26 | 23 |
| Estimated Number of Books..... | 3,497,342 | 3,497,342 | 3,343,509 | 3,262,776 |
| Circulation | 889,315 | 981,689 | 996,316 | 1,151,952 |
| Water System..... | | | | |
| Number of Customer Accounts..... | 264,259 | 281,104 | 262,415 | 260,639 |
| Average Pumpage - Millions of Gallons per Day | 599.6 | 640.0 | 606 | 654 |
| Greatest Pumpage for a Single Day During Fiscal Year - Gallons | 1,049,800,000 | 1,060,500,000 | 1,082,200,000 | 1,194,500,000 |
| Greatest Pumpage for a Single Hour During Fiscal Year -Gallons..... | 50,333,000 | 52,208,000 | 48,667,000 | 53,750,000 |
| Filtration Plant Rated Capacity - Millions of Gallons per Day..... | 1,780 | 1,670 | 1,680 | 1,700 |
| Number of Miles of Water Mains..... | 3,840 | 3,840 | 3,846 | 13,251 |
| Average Cost (Includes Domestic, Industrial and Commercial) per 1,000 Cubic Feet..... | \$ 11.87 | \$ 11.49 | \$ 11.00 | \$ 10.00 |
| Sewage System..... | | | | |
| Number of Sewage Disposal Plants..... | 1 | 1 | 1 | 1 |
| Number of Pumping Stations..... | 12 | 12 | 12 | 14 |
| Miles of (Trunk Line + Lateral) Sewers | 2913 | 3,383 | 2,913 | 2,899 |
| Miles of Lateral Sewers..... | - | - | - | - |
| Transportation..... | | | | |
| Number of Employees..... | 1,530 | 1,605 | 1,757 | 1,803 |
| Number of Revenue Vehicles..... | 550 | 561 | 572 | 540 |
| Seating Capacity..... | 22,278 | 22,065 | 23,887 | 23,452 |
| Number of Route Miles..... | 1,291 | 1,198 | 1,324 | 1,309 |
| Total Number of Passengers (Estimated)..... | 37,083,344 | 36,000,000 | 38,000,000 | 39,756,458 |
| Regular Fare..... | \$ 1.50 | \$ 1.50 | \$ 2 | \$ 2 |
| Tickets..... | 5 for \$7.50 | 5 for \$6.50 | 5 for \$6.50 | 5 for \$6.50 |
| Transfers..... | \$ 0.25 | \$ 0.25 | \$ - | \$ - |
| Health..... | | | | |
| Number of Employees..... | 434 | 508 | 578 | 582 |
| Birth Rate per Thousand | 14.3 | 14.8 | 15 | 16 |
| Death Rate per Thousand | 9.5 | 9.5 | 10 | 10 |
| Infant Mortality Rate per Thousand Live Births | 15.5 | 16.3 | 17 | 14 |

Source: City of Detroit, Various Departments

| Fiscal Year | | | | | |
|----------------|----------------|----------------|----------------|----------------|----------------|
| 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| 52 | 52 | 52 | 51 | 51 | 60 |
| 4,243 | 4,156 | 4,143 | 4,003 | 4,042 | 4,028 |
| 770,198 | 623,399 | 658,064 | 681,166 | 693,431 | 681,958 |
| 51,861 | 179,484 | 176,866 | 185,708 | 26,250 | 28,915 |
| 102,382 | 99,764 | 102,143 | 112,501 | 107,781 | 100,709 |
| 49 | 49 | 57 | 46 | 49 | 47 |
| 1,787 | 1,748 | 1,721 | 1,742 | 1,695 | 1,719 |
| 200 | - | - | - | - | - |
| 36,208 | 38,000 | 30,430 | 30,426 | 30,426 | 30,200 |
| 24,138 | 22,547 | 23,538 | 26,328 | 25,079 | 36,072 |
| 128,006 | 126,898 | 126,722 | 69,636 | 128,305 | 136,176 |
| \$ 127,250,563 | \$ 134,838,326 | \$ 177,193,955 | \$ 294,140,381 | \$ 265,320,467 | \$ 266,185,234 |
| 1,290 | 1,351 | 1,373 | 903 | 1,142 | 1,199 |
| 2,788 | 2,788 | 2,788 | 2,789 | 2,792 | 2,796 |
| 1,277 | 1,290 | 1,290 | 1,292 | 1,294 | 1,298 |
| 4,250 | 4,252 | 4,252 | 4,253 | 4,258 | 4,264 |
| 8,700 | 87,000 | 87,000 | 86,932 | 86,932 | 86,960 |
| 1,058 | 1,578 | 1,578 | 1,578 | 1,415 | 1,470 |
| 180,000 | 184,000 | 184,000 | 184,000 | 184,000 | 184,000 |
| 384,473,900 | 390,922,000 | 360,000,000 | 318,555,500 | 326,180,800 | 288,491,200 |
| 620,619,500 | 620,704,800 | 660,000,000 | 629,908,300 | 663,025,200 | 660,268,000 |
| 70,000,000 | 70,000,000 | 70,000,000 | 71,161,149 | 71,161,149 | 82,027,700 |
| 391 | 391 | 391 | 391 | 391 | 391 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 128 | 123 | 131 | 127 | 99 | 136 |
| 4 | 4 | 4 | 4 | 4 | 4 |
| 21 | 27 | 22 | 22 | 30 | 31 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 209,667 | 216,459 | 223,357 | 266,905 | 226,167 | 251,119 |
| 24 | 25 | 26 | 26 | 26 | 27 |
| 3,164,986 | 3,024,718 | 6,635,529 | 6,603,359 | 6,570,702 | 2,781,191 |
| 972,534 | 1,041,468 | 1,228,169 | 1,390,473 | 1,513,185 | 1,654,320 |
| 270,751 | 270,685 | 268,478 | 264,950 | 271,561 | 271,561 |
| 661 | 615 | 653 | 673 | 636,940,000 | 654,764,000 |
| 1,219,600,000 | 1,043,700,000 | 1,094,000,000 | 1,114,900,000 | 1,095,800,000 | 1,054,200,000 |
| 57,600,000 | 49,000,000 | 50,208,333 | 53,000,000 | 53,000,000 | 51,750,000 |
| 1,600 | 1,600 | 1,700 | 1,700 | 1,700 | 1,700 |
| 13,137 | 13,137 | 12,978 | 12,659 | 12,524 | 12,524 |
| \$ 9.00 | \$ 8.00 | \$ 7.00 | \$ 7.00 | \$ 7.00 | \$ 6.00 |
| 1 | 1 | 1 | 1 | 1 | 1 |
| 14 | 14 | 14 | 14 | 14 | 14 |
| 2,864 | 2,200 | 2,200 | 2,200 | 740 | 740 |
| - | - | - | - | 2,126 | 2,126 |
| 1,750 | 1,538 | 1,711 | 1,815 | 1,683 | 1,847 |
| 548 | 585 | 516 | 586 | 586 | 601 |
| 23,680 | 25,387 | 22,531 | 26,073 | 26,165 | 25,535 |
| 1,316 | 1,324 | 1,311 | 1,369 | 1,416 | 1,618 |
| 41,000,000 | 44,000,000 | 44,000,000 | 42,500,000 | 42,000,000 | 41,132,920 |
| \$ 1 | \$ 1 | \$ 1 | \$ 1 | \$ 1 | \$ 1 |
| 5 for \$5.75 | 5 for \$5.75 | 5 for \$5.75 | 5 for \$5.75 | 5 for \$5.75 | 5 for \$5.75 |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 552 | 545 | 552 | 568 | 596 | 370 |
| 17 | 17 | 16 | 14 | 17 | 17 |
| 11 | 11 | 11 | 14 | 10 | 11 |
| 15 | 15 | 15 | 15 | 15 | 15 |

Our Special Thanks To:
City of Detroit, Michigan
www.ci.detroit.mi.us

Finance Department

**Financial Reporting and
Grants Management Sections
and Staff**

Marieta Hammerly, Manager II
Nancy Capers, Manager I
Charrise Walker, Principal Accountant
Andre Redmond, Principal Accountant

Very Special Thanks to Nur Barre, Principal Accountant

Wolinski and Company, CPA's and Staff

Randy K. Lane, P.C.

**General Accounting Section
and Staff**

Richard E. Williams, General Manager
Saied S. Rouhani, Manager I
David Capobres Jr. Manager I
Cynthia Lampkin, Manager I
Cassandra Childress, Senior Accountant
Troy Hutcherson, Business Systems Support Specialist
and all Finance Department staff for their commitment and
dedicated service in the preparation of this report

City of Detroit - Agencies
for their full cooperation in providing us all the necessary
information needed to compile this report

Communications and Creative Services Department

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Kwabena Shabu, Supervising Photographer

KPMG LLP
and staff

Alan C. Young & Associates, P.C.
and Staff

BOWNE of Detroit
for printing this report



CITY OF DETROIT, MICHIGAN

Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards

June 30, 2006



KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

**Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Honorable Mayor Kwame Kilpatrick
and
The Honorable Members of the City Council
City of Detroit, Michigan:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 25, 2008 which includes an emphasis paragraph stating the City excluded the reporting in its financial statements the Detroit Housing Commission and the School District of the City of Detroit because they are no longer component units of the City. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Detroit Brownfield Redevelopment Authority, Detroit Public Library, Downtown Development Authority, Economic Development Authority, Museum of African American History, Detroit Transportation Corporation, Greater Detroit Resource Recovery Authority, and the Retirement Systems as described in our report on the City's financial statements. The financial statements of the Detroit Public Library (Library) have not been audited, and we were not engaged to audit the Library's financial statements as part of our audit of the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Attachment I as items 2006-01 through 2006-04, and 2006-06 through 2006-51.



A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 2006-01, 2006-02, 2006-03, 2006-04, 2006-06, 2006-07, 2006-09, 2006-10, 2006-11, 2006-15, 2006-16, 2009-17, 2006-18, 2006-21, 2006-22, 2006-24, 2006-27, 2006-28, 2006-29, 2006-30, 2006-35, and 2006-36 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Attachment I as item 2006-05.

We noted certain other matters that we reported to management of the City which are included in Attachment II.

This report is intended solely for the information and use of the Mayor, City Council, City management, federal awarding and pass-through agencies, and the Treasurer of the State of Michigan; and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan
February 25, 2008

Item 2006-01 – Financial Statement Preparation

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The financial reporting process should be designed to effectively accumulate, process, summarize, and present fairly a complete set of financial statements and supporting information on a timely basis. This should include the timely submission of the City's Comprehensive Annual Financial Report (CAFR) to the State of Michigan Treasurer.

Condition

Deficiencies noted in the prior year's audit related to financial statement preparation were not corrected. We continue to note certain deficiencies as described below:

- The financial statement preparation process relies partly upon decentralized accounting staff and software applications other than the City's DRMS general ledger. The process also requires a significant amount of manual intervention. These circumstances create an environment that lengthens the time necessary and increases errors occurring during the preparation of the financial statements.
- Throughout the City's fiscal year, complex transactions are entered into that have a significant impact on the financial statements without timely consideration given as to how to record or report such transactions. These transactions are often not identified until the end of the fiscal year during the financial reporting process. In addition, there is inadequate communication between various City departments on major transactions and on how they affect the individual reports and the CAFR.
- A significant number of manual postclosing entries are recorded, which consist of significant adjustments.
- The financial reporting process only occurs for the year-end financial statements as compared to a monthly or quarterly basis. As a result, certain key account reconciliations are not performed timely and take an extended amount of time to complete during the closing process. Information necessary to effectuate a timely and accurate closing of the books is sometimes not communicated between certain departments and agencies of the City.
- The financial reporting function does not utilize enough qualified and appropriately experienced employees to prepare the financial statements or monitor reporting issues throughout the year. As a result, the City has employed contractors at the end of the reporting process.

Cause

Financial reporting and accounting employees are not provided adequate amounts of training. Employees with qualifications important to accounting and financial reporting functions have left the City and have not been replaced with employees with similar qualifications. Disparate systems require significant manual intervention (analysis and reconciliation) in order for the City to determine that it has received complete and accurate information for the financial reporting process. Internal control procedures designed to mitigate the effect of these issues are not consistently monitored by the City's management throughout the year to determine if they are operating effectively.

Effect

The above deficiencies hinder the City's ability to timely and accurately prepare financial statements.

Recommendation

It is imperative that management provide ongoing and regular training to accounting and financial reporting employees and hire other personnel with the qualifications and experience necessary to adequately perform the duties in the financial reporting function. Management should monitor internal control procedures throughout the year to determine that they are being executed as designed. In addition, the City should review its financial reporting and accounting organizational structure as many accounting activities are performed outside of the finance department.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-02 – Schedule of Expenditures of Federal Awards

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

A reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) to the General Ledger should be performed throughout the year in order to ensure the SEFA is complete and accurate as to the reporting of federal funds and to avoid putting such funds at risk through noncompliance with the awarding agencies.

Condition

There were several significant unreconciled differences between the SEFA and the General Ledger. The attempt to reconcile continued more than a year after fiscal year-end and significant errors that required adjustments to the SEFA were discovered throughout this process.

Cause

The internal control procedures were not adequately designed to identify all sources of federal funds. The internal control procedures that were in operation were not followed or monitored properly to perform a complete and accurate reconciliation of the SEFA to the General Ledger on a timely basis.

Effect

Unreconciled differences between the SEFA, the General Ledger, and supporting documentation could result in significant errors in the financial statements or SEFA.

Recommendation

Management should redesign the internal controls over the SEFA preparation and reconciliation process. The process should include procedures to identify all sources of federal funds and the related federal compliance requirements. The process should also include procedures to compare source documentation (e.g., federal draw-down requests, grant agreements, deposits of federal funds, etc.) to the recorded information for completeness and consistency.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-03 – Manual Journal Entries

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

It is the City's policy that journal entries are prepared by the respective departments and require approval by a supervisor or manager and should be accompanied by sufficient supporting documentation. The approver of the journal entry is required to be independent of the preparer and at least one management level above (same department) or at least the same level (different department) as preparer.

Condition

During our test work, we noted 31 of the 104 entries selected did not contain evidence of proper approval. In addition, 39 entries did not have adequate supporting documentation accompanying the entry. Of the 31 entries not properly approved, 16 of the 31 entries were prepared, posted, and approved by a single individual instead of multiple independent individuals.

Cause

Internal controls were circumvented and not properly monitored and enforced.

Effect

Journal entries that lack appropriate approvals and supporting documentation increase the risk that internal controls will not prevent or detect misstatements in the financial statements, whether caused by error or fraud.

Recommendation

Employees who prepare, approve, and process journal entries should receive periodic training. The City should develop policies and procedures related to monitoring and detecting noncompliance with City policies. Employees who are found to circumvent internal controls should be subject to appropriate personnel actions which at a minimum should include termination.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-04 – Bond Covenants

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The fraud provisions of the Securities Act of 1934 require continuing disclosure of all material matters. Not reporting violations of debt covenants could be considered a violation of these provisions. Management should have internal control procedures to identify and evaluate compliance with all debt covenants.

Condition

There is no formal process to identify, evaluate, and monitor each debt covenant entered into by the City. The City was unable to provide evidence that they had monitored compliance with debt covenants throughout the year.

Cause

Internal control procedures related to the identification and evaluation of debt covenants was not designed properly to appropriately reduce the risk of noncompliance to an acceptable level.

Effect

Noncompliance with the fraud provisions of the Securities Act of 1934 can be considered a serious violation of federal laws.

Recommendation

Management should establish internal control procedures to identify, evaluate, and monitor compliance with all debt covenants on an ongoing basis. The internal control procedures should include procedures whereby other members of management are monitoring the internal controls throughout the year to determine if they are placed in operation and operating effectively.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-05 – Remittance of Escheatment Properties

Type: Compliance and Other Matters

Criteria

The City is required to remit unclaimed (escheat) property to the State of Michigan Department of Treasury, Unclaimed Property Division, with complete and accurate information on an annual claim file report per the State of Michigan's Unclaimed Property Act, Public Act 29 of 1995.

Condition

The City has not filed the required Michigan Holder Transmittal Annual Report of Unclaimed Property, nor remitted escheatable properties to the State of Michigan, Unclaimed Property Division.

Cause

Internal controls were not properly established, executed, or monitored. Management does not have a documented procedure to ensure that unclaimed properties are escheated.

Effect

The City is currently not in compliance with Public Act 29. The potential financial statement effect is that the liabilities of the City might be understated due to the potential existence of penalties and interest associated with not filing.

Recommendation

Management should develop internal control procedures to determine that the City employee responsible for filing the required escheatment related documentation has conducted the activities in accordance with Michigan laws.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-06 – Calculation of Arbitrage

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The City is required by Bond Covenants and Federal Tax Law to ensure that it does not violate arbitrage laws.

Condition

During our audit, we noted management did not have a process in place to monitor compliance with the arbitrage laws to ensure that the City's bonds remain tax exempt.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The City is out of compliance with IRS rules and bond covenants regarding arbitrage calculations.

Recommendation

Management should develop and enforce internal controls designed to ensure that the City is in compliance with the arbitrage requirements.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-07 – Workers' Compensation

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

In order to appropriately design the internal control procedures to be utilized over the processing, authorizing, and documenting of workers' compensation claims, the City should investigate the internal control procedures utilized by its third-party administrator and then assess and design complementary controls over the processing, authorizing, and maintaining history of claims data.

Condition

During our audit, we noted the City has not evaluated and reviewed the internal control procedures utilized by its third-party administrator and does not have internal control procedures to assess the completeness and accuracy of the underlying data provided to the actuary.

Cause

The City does not currently have a policy in place that requires evaluation of internal controls of the third-party administrators. Internal controls were not properly established, executed, or monitored.

Effect

Due to the City not having a complete data set related to its own experience with workers' compensation claims, the City's consulting actuary utilized industry-wide data combined with City data to establish payment patterns. Additionally, the actuary was unable to prepare a standard development analysis because the City had not maintained historical valuations of loss and expense payments and outstanding loss reserves summarized by accident year. The actuarial estimate is subject to greater variation than it would be had traditional data been available for review.

Recommendation

The City should obtain and evaluate the Third Party Administrator (TPA) SAS 70 reports to assess the internal control procedures used by the TPA's. The City should then develop complementary internal control procedures. The City should consider implementing either a new system or modifying current systems to include more appropriate claims tracking and maintenance of reserves. The collection of such insurance statistics would provide for more consistency in the loss reserving process and could provide the City information that could be used to implement cost-saving measures.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-08 – Procurement Authorization

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City requires a proper signature on purchase orders over \$2,000 and approval by City Council for purchase orders over \$25,000.

Condition

During our test work, we noted 2 of 32 purchase orders that did not have City Council approval when required and 4 of 32 purchase orders that did not contain appropriate signatures. We also noted 2 purchase orders that were exactly one cent (\$0.01) below the threshold for approvals. This is a potential risk factor that there was an attempt to circumvent the approval control thresholds.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Purchase orders that are authorized without proper approval could lead to inefficient use of funds, misappropriation of assets, or fraud.

Recommendation

Management should strengthen the internal controls over the purchase order authorization process by implementing additional monitoring procedures. Monitoring procedures should include analysis of purchasing data files by vendor, requisition department, appropriation, date, time, and amount.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-09 – Service Providers

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The City should have a formalized process for obtaining and reviewing the internal controls related to the Service Organizations that accumulate, process, and summarize significant financial information on behalf of the City.

Condition

During our test work, we noted the City did not review the internal controls that related to Service Organizations that accumulate, process, and summarize significant financial information. Additionally, the Finance Department appeared to be unaware of several of the Service Organizations that City departments were utilizing.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The City's financial statements could be materially misstated by the inadvertent reliance of the completeness and accuracy of financial information being processed by the service organizations.

Recommendation

Management should develop and enforce a process to review the completeness and accuracy of the information being provided to the service organizations. Review the internal controls of the service organizations through an audit of internal controls for service organizations (SAS 70) or perform their own internal controls testing. Lastly, the City should be reviewing the information being received from the service organizations for completeness and accuracy.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-10 – Cash and Investment Reconciliations

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Cash and investment accounts should be reconciled to the General Ledger on a monthly basis and all differences should be investigated and appropriately resolved on a timely basis.

Condition

During our audit, we noted various cash and investment accounts were not reconciled timely and contained unresolved differences that were not investigated on a timely basis.

Cause

Internal control procedures were not properly executed, monitored, or enforced on a consistent basis.

Effect

Unresolved differences on cash and investment reconciliations could result in misstatements, whether caused by error or fraud, in the financial statements that would go undetected. Additionally, reconciling items that are not resolved timely become stale and often more difficult to resolve as time passes.

Recommendation

Cash and investment reconciliations should be completed within a short period of time after each month-end and all differences should be investigated and resolved immediately.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-11 – Cash and Investment Accounts, also see Item 2006-11

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Internal controls should be designed, executed, monitored, and enforced to ensure that all bank accounts and investment accounts are properly authorized and accounted for throughout the City departments.

Condition

During our test work, we noted several inactive, off-balance-sheet and apparently unauthorized accounts. In addition, we noted that the City did not maintain a complete and accurate listing of all bank and investment accounts.

Cause

Internal control procedures were not properly executed and monitored on a consistent basis.

Effect

Unauthorized or unknown bank and investment accounts increase the risk of errors and irregularities to occur in the financial statements. In addition, it increases the risk of fraud to occur.

Recommendation

We recommend that management strengthen the internal controls to ensure that Finance and Treasury are aware of all bank and investment accounts, including inactive, closed, or unauthorized accounts. Consideration should be given to developing policies and procedures related to monitoring and detecting noncompliance with City policies. We further recommend that management strengthen the controls over the opening, closing, and signatories of all bank and investment accounts.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-12 – Classification of Cash Equivalents – DWSD

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City is required to consider certain short-term, highly liquid investments as cash equivalents per Governmental Accounting Standards Board Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds*.

Condition

During our audit, we noted the Detroit Water and Sewerage Department (DWSD) was not properly classifying cash equivalents in its financial statements.

Cause

Individuals responsible for preparing financial statements were not aware of the relevant generally accepted accounting principles related to the classification of cash and cash equivalents.

Effect

The presentation and disclosures of cash equivalents could be misstated in the financial statements.

Recommendation

Individuals responsible for preparing the financial statements should receive adequate training to ensure awareness of all relevant generally accepted accounting principles.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-13 – Investment Valuation

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City's accounting policy and U.S. generally accepted accounting principles (GAAP) require the valuation and recording of investments at fair value.

Condition

During our test work, we noted certain investments that were not properly valued at fair value.

Cause

Internal controls were not properly established, executed, or monitored to prevent, detect, and/or correct the error.

Effect

Investment amounts not recorded at fair value could lead to a material misstatement to the financial statements.

Recommendation

Management should strengthen the City's internal controls to ensure all investments are properly recorded in accordance with City and State of Michigan requirements and GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-14 – Imprest Cash Authorized Limits

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City has an imprest cash policy that allows for a specific authorized amount in each account.

Condition

During our audit, we noted several departments held more cash in their imprest cash accounts than they were authorized for.

Cause

Internal control procedures were not established, followed, or monitored on a consistent basis to ensure compliance with City policy.

Effect

Not following City policy increases the risk of error in the financial statements and increases the risk of fraud to occur.

Recommendation

Employees who are responsible for handling the imprest cash accounts should be provided training over the applicable policies. Consideration should be given to developing policies and procedures related to monitoring and detecting noncompliance with City policies.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-15 – Construction Work in Process

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Internal controls should exist to ensure that all capital assets are properly released into service per the City's policy and the definition of "in process" by GAAP.

Condition

Construction in process (CIP) for the governmental activities, Water Fund, Sewage Fund, Automobile Parking Fund, and the Detroit Building Authority have not been released into service in a timely manner to match the City's policy or the definition of "in process" by GAAP. In addition, several items were initially recorded in the current year as additions to CIP that should have been expensed.

Cause

Internal controls are not properly designed, executed, or monitored to ensure that all capital assets are properly released into service per the City's policy and the definition of "in process" by GAAP.

Effect

If items are not placed into service, the recording of depreciation expense will not begin. This could result in misstatements in the financial statements.

Recommendation

Individuals who are knowledgeable in the area of GAAP related to capital assets should perform a substantive evaluation of every CIP project on an annual basis at a minimum. All projects that are placed into service by the fiscal year-end should be transferred from CIP to the appropriate asset category and related depreciation should be taken. In addition, all charges to CIP need to be evaluated to determine whether they fit the definition of a capital asset and should be capitalized or if they should be expensed.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-16 – Recording of Capital Asset Disposals

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Internal controls should exist to ensure that all capital asset disposals are properly recorded in the financial records and the capital asset system in accordance with GAAP.

Condition

During our audit, we noted an inaccurate calculation of the gain on disposal of capital assets in 18 of 30 samples selected.

Cause

Internal control procedures were not established, followed, or monitored on a consistent basis to properly identify capital asset disposals and accurately account for them.

Effect

A lack of appropriate internal controls over the recording of capital asset disposals could lead to material errors in the financial statements.

Recommendation

Management should strengthen the City's internal controls to adequately identify and account for capital asset disposals. Individuals who are knowledgeable in the area of GAAP related to capital assets should perform a substantive monitoring and communication with all departments to ensure all potential capital asset disposals are recorded properly. Additionally, the City should consider conducting fixed asset physical counts on an ongoing department by department basis so that each department has all capital assets physically counted in accordance with City policies.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-17 – Recording of Capital Asset Additions

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Internal controls should exist to ensure that all capital asset additions are properly recorded in the financial records and the capital asset system in accordance with GAAP.

Condition

The majority of assets were being capitalized on a cash or cost basis instead of the accrual basis of accounting causing adjustments to the total assets acquired in the next fiscal year.

Cause

Internal controls were not adequately designed, effective, or monitored to ensure that asset additions are accurately accounted for in the proper period. In addition, the City does not have an established set of year-end procedures to be performed to reconcile data from one department to another.

Effect

A lack of appropriate internal controls over the recording of capital asset additions and an established year-end reconciling process could lead to material errors in the financial statements.

Recommendation

Management should strengthen internal controls over the year-end closing process to ensure capital asset additions are being accurately accounting for in accordance with GAAP. This should include reconciling capital outlay expenditures by department to the capital asset additions recorded.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-18 – Capital Asset Inventories

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Finance Directive #95 issued by the City's Finance Department, outlines the capital assets policy for all City agencies. Section IV of the Finance Directive establishes the requirement that each agency conduct a physical inventory of its capital assets prior to each year-end.

Condition

During our audit, we noted physical inventories of capital assets were not being conducted as required.

Cause

Internal controls over the monitoring and enforcement of physical counts of capital assets were not established, followed, or monitored on a consistent basis.

Effect

A lack of the required physical counts of capital assets could result in misstatements in the financial statements not being detected on a timely basis. Additionally, if capital assets are not counted on a periodic basis, misappropriation or theft of capital assets could go undetected.

Recommendation

Management should strengthen the internal controls over the physical counts of capital assets. This should include conducting fixed asset physical counts on an ongoing department by department basis so that each department has all capital assets physically counted in accordance with City policies. Physical counts should be conducted by individuals who are independent of the custody and recording of capital assets and independent of the purchasing and receiving of capital assets.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-19 – Identification of Impaired Assets

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City should have a formalized internal control process for monitoring known events that could cause an asset to be impaired and therefore require an assessment of impairment in accordance with GAAP.

Condition

During our audit, we noted there was not a formal process for monitoring and tracking events that could cause an asset to be impaired.

Cause

Internal control procedures were not established, followed, or monitored.

Effect

Not having an adequate process over monitoring the events that could cause an asset to be impaired could cause an error in the financial statements.

Recommendation

The City should develop a formalized internal control process for monitoring the events that could cause an asset to be impaired. Additionally, whenever a new accounting pronouncement is issued that will potentially impact the City, the City should assess the impact at the implementation date and develop and implement internal control procedures to ensure compliance with the new pronouncement on an ongoing basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-20 – Capital Asset Classifications – Detroit Department of Transportation (DDOT)

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

The City should have a policy in place to ensure that they are accurately depreciating their capital assets over their useful lives.

Condition

During our audit, we noted that DDOT's depreciation policy did not segregate between buildings, which should be depreciated in accordance with the depreciation policy, and building improvements, which should be depreciated over the lesser of the expected useful life of the building improvement or the remaining useful life of the building that the improvement was made to.

Cause

Internal control procedures were not established, followed, or monitored.

Effect

The City's capital assets and related accumulated depreciation could be misstated.

Recommendation

The City should develop a policy that accurately depreciates their capital assets over their useful lives.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-21 – Legal Case Reserve Analysis

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

All legal cases should be identified, monitored, and assessed in accordance with GAAP, including *Financial Accounting Standard No. 5* and *Government Accounting Standard Board Interpretation No. 6*.

Condition

During our audit, we noted the legal case reserve listing was inaccurate, incomplete, and not assessed properly in accordance with GAAP.

Cause

Internal control procedures were not established, followed, or monitored to ensure a complete and accurate list of legal cases was assessed in accordance with GAAP. In addition, there was inadequate training and communication between departments on the proper accounting for legal reserves.

Effect

Incomplete and inaccurate legal reserves could potentially lead to a material error in the financial statements.

Recommendation

Management should strengthen the internal control process over the legal reserve process. This should include adequate training and timely periodic reviews of all legal cases assessed in accordance with GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-22 – Recording of Inventory

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

As part of the year-end closing process, management requires each department to perform a physical count of inventory to assess the completeness, accuracy, and valuation of each department's inventory.

Condition

During our audit, we noted insufficient inventory listings and related supporting documentation.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Insufficient documentation could result in misstatements to the financial statements.

Recommendation

Management should strengthen the internal controls over the recording of inventory and the physical count process. Employees who are responsible for performing the inventory should be given adequate training over the inventory process. Consideration should be given to develop an electronic inventory system for the departments to track and monitor inventory.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-23 – Inventory valuation – DDOT

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

In accordance with management's inventory policy and GAAP, inventory should be valued at the lower of cost or market.

Condition

During our test work, we noted errors between the price of inventory in the Lawson inventory system and the most recent invoice resulting in inventory not being valued at actual cost.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Inaccurate valuation of inventory could cause errors in the financial statements.

Recommendation

Management should strengthen internal controls to ensure that inventory is properly valued.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-24 – Payroll Reconciliation from the Payroll Sub-Ledger to the General Ledger

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

To ensure completeness and accuracy of the payroll accounts in the general ledger, management should reconcile the payroll sub-ledger to the General Ledger on a routine basis.

Condition

During our audit, we noted that reconciliation between the Payroll Sub-Ledger to the General Ledger was not performed.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Unresolved differences between the General Ledger and the Payroll Sub-Ledger could result in errors and/or irregularities in the General Ledger.

Recommendation

Management should establish controls to ensure that the General Ledger and the Payroll Sub-Ledger are reconciled on a timely basis and all differences should be investigated and resolved immediately.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-25 – Payroll File Maintenance Audit Report

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Internal controls should be in place to ensure that all changes to the payroll file are appropriate and authorized. The Payroll File Maintenance Audit Report that shows all changes to the payroll file is required to be reviewed and approved by the payroll clerks.

Condition

During our audit, we noted a File Maintenance Report was printed showing the changes to the payroll file; however, there is no evidence of review by management or payroll clerks.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The financial statements could potentially be misstated by inaccurate or unauthorized changes in the payroll file.

Recommendation

Management should strengthen internal controls to ensure that the Payroll File Maintenance Audit Report is reviewed and the review is evidenced by a signature.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-26 – Sick Leave Reserve – DDOT

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Internal controls should be in place to ensure that when changes to union agreements occur, the reserve accounts are properly adjusted.

Condition

During our audit, we noted the DDOT failed to increase the sick leave reserve to account for the increase in payouts per the new union agreement.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The financial statements could potentially be misstated.

Recommendation

Management should establish and enforce internal controls to ensure that reserve amounts are adjusted to reflect increases in payouts with regards to new union agreements. Management should implement a process to evaluate the potential financial statement impact of all new and/or revised contracts.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-27 – Interfund Transaction Recording, also see Item 2006-01

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

The City is required to properly record interfund transactions on a timely basis and ensure that they are properly recorded in accordance with GAAP.

Condition

During our test work, we noted the City is not reconciling the interfund transaction on a timely basis and is improperly recognizing internal reimbursements in the financial statements by recording them as revenue in the reimbursed fund instead of a reduction of expenditures.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The financial statements could be misstated and not presented in accordance with GAAP.

Recommendation

Management should strengthen the internal controls to prevent, detect, and correct errors in the due to/due from. Additionally, management should strengthen the internal controls in the reporting process to ensure that all applicable revenue and expenditure transactions are recorded and presented accurately in accordance with GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-28 – Recognition of Revenue in the Government-Wide Statements, also see Item 2006-01

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Management is required to recognize revenue on the full accrual basis of accounting in the governmental activities financial statements and to recognize revenue on the modified basis of accounting in the Governmental funds financial statements in accordance with GAAP. However, the accounts receivable recognition criteria are the same for both the full accrual and modified accrual bases of accounting.

Condition

During our test work, we noted that different criteria were used for recognizing accounts receivables, at the governmental activities and governmental fund levels even though the recognition criteria used should have been the same.

Cause

Individuals responsible for preparing the financial statements were unaware of the appropriate GAAP.

Effect

The City's financial statements could contain a misstatement in their accounts receivable and deferred revenues.

Recommendation

Individuals responsible for preparing the financial statements should possess relevant experience and should receive training on GAAP on a regular basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-29 – Accounts Receivable Aging Report

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Management should develop a complete and accurate accounts receivable aging report in order to properly reserve for accounts that will not be collected.

Condition

During our test work, we noted that the accounts receivable aging report was not accurately aging each invoice. In addition, we noted the accounts receivable year-end process was very complex and labor intensive.

Cause

Internal controls were not properly established, executed, or monitored to ensure that reports contain accurate data and calculations.

Effect

Inaccurate aging of accounts receivable could cause an error in the financial statements.

Recommendation

Management should strengthen the City internal controls to ensure that the accounts receivable aging report is properly aged.

Views of Responsible Official

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-30 – Recording of Emergency Medical Services (EMS) and Parking Revenue Streams

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Management is required to recognize revenue and receivables on the full accrual basis of accounting in the governmental activities in the financial statements in accordance with GAAP.

Condition

During our test work, we noted the City was inaccurately recognizing revenue for both the EMS and Parking revenue accounts. The billing and collection data is accumulated, processed, and collected by service organizations. Once billed, the service organization is only responsible for rebilling a given number of times, after which they stop attempting to collect. If a bill is collected, it is remitted to the City that records revenue only when this collection occurs. Revenues should be recorded when they are earned and the City has an enforceable legal claim beyond what the service organization time frame for collection.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Inadequate monitoring of significant accounts receivable and revenue accounts could cause misstatements in the financial statements.

Recommendation

Management should strengthen the City internal controls to ensure that the EMS and Parking accounts are properly monitored and recorded in accordance with GAAP.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-31 – Reconciliation of Income Tax Ledger to the General Ledger

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

In order to ensure complete and accurate revenue is recorded in the general ledger the income tax division reconciles the DRMS cash collections to the amount of collections in the Tax Administration System (TAS).

Condition

During our audit, we noted the City did not prepare reconciliations of the income tax collections from the DRMS General Ledger System to TAS subsidiary ledger.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Unresolved differences between the General Ledger and the income tax subsidiary ledger could result in errors in the financial statements.

Recommendation

Management should establish internal controls to ensure that the General Ledger and the income tax subsidiary ledger are reconciled on a timely basis. In addition, any reconciling items should be investigated and resolved immediately.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-32 – Revenue/Accounts Receivable Process – Public Lighting Department

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Adequate internal controls are required to ensure the meter reading, bill processing, recordkeeping, is complete and accurate.

Condition

During our audit, we noted inadequate internal controls including management review and approval, segregation of duties, information technology and monitoring of the process. It was noted that the same individual is responsible for custody, recordkeeping, authorization, review of transactions.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

Electrical accounts receivable and revenue could potentially be materially misstated due to a lack of internal controls for billing, recording, and collecting accounts receivables.

Recommendation

Management should strengthen the internal controls to ensure that accounts receivable and revenue are complete, accurate, and properly earned.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-33 – Application of Payments to the Water Fund and the Sewerage Fund

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

To ensure complete and accurate accounts receivable balances for the Water Fund and Sewerage Fund, the department should have an adequate systematic process for applying partial payments to customer accounts.

Condition

During our test work, we noted the billing and collection system for the Water and Sewerage Department automatically attributes the entire partial payment of a bill to the Water Fund and then any remaining amount to the Sewerage Fund.

Cause

The design and implementation of the Customer Billing Management System (CBMS) did not allow for a systematic allocation of partial payments to customer accounts.

Effect

By not having a systematic allocation of payments to customer accounts the Water Fund accounts receivable sub-ledger will have a better collection rate than the Sewerage Fund. This results in the Sewerage fund having a larger amount of uncollectible customer accounts.

Recommendation

Management should change the CBMS allocation and application of payments to each fund.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-34 – Accounts Payable Reconciliation – Parking Fund

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Management should ensure that Parking's MIP general ledger system and the City Accounts Payable module in DRMS are reconciled.

Condition

During our test work, we noted the City did not reconcile the Central Accounts Payable module to the MIP general ledger system. Parking maintains its own General Ledger System; however, the Central Accounts Payable Department issues checks on behalf of the Parking Department using DRMS.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There could potentially be an error in the parking accruals or expenditures as a result.

Recommendation

Management should strengthen the internal controls to reconcile the parking accounts payable ledger to the City's General Ledger.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-35 – Year-end Accruals

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Expenditures generally should be recognized when transactions or events that result in claims against financial resources take place.

Condition

During our test work, we noted City departments are not consistently reporting all invoices or other items that require accrual to the Accounts Payable department. Specifically, we identified 79 out of 253 invoices selected for which an accrual was not recorded when it should have been recorded.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

The City could misstate expenditures and related liabilities.

Recommendation

Management should strengthen the internal controls procedures over the accrual process. Management should provide periodic training for the various departments and monitor the process on a periodic basis. Additionally, management should conduct analysis of data files as part of the year-end closing process to assist in identifying unrecorded accruals.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-36 – Invoice Accrual Policies

Type: Internal Control over Financial Reporting: Material Weakness

Criteria

Generally, expenditures should be recognized when transactions or events that result in claims against financial resources take place.

Condition

During our test work, we noted the City only required departments to accrue for invoices over \$100,000 but did not perform an analysis to quantify the potential effect of this policy.

Cause

Management believes that any invoices below this amount are immaterial to the City.

Effect

The City could potentially be underreporting expenditures and liabilities in the aggregate.

Recommendation

Management should develop and enforce a process where all invoices after year-end are inspected to determine if they should be accrued for. Management should also develop and enforce a process for departments to report their year-end accruals. Alternatively, if management chooses to maintain the current policy, then it should conduct analyses to determine the potential impact of the policy versus recording all invoices.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

NOTE: ITEMS 2006-37 THROUGH 2006-51 ARE “Information Technology” (OR SYSTEMS) RELATED.

Item 2006-37 – Password Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Adequate password parameters should be enforced over systems used in support of the financial reporting process to avoid unauthorized use of user accounts. Password rules should consider:

- Minimum password length
- Acceptable password change intervals
- Passwords syntax rules (i.e., prohibited passwords, required letter/number/special character combinations)

Condition

During our test work over the (IT) General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS, MIP (General Ledger System for Parking Fund), Tax Administration System (TAS), Equalizer Tax application and the TideMark Systems, we noted the City did not have adequate password parameters in place.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should develop and enforce stronger password parameters such as password length of at least 6 characters, password expiration every 90-120 days, enforce alpha-numeric password, and suspend ID's after 5 invalid login attempts.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-38 – Unique User ID's

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Authentication mechanism should be established for information systems that provides for individual accountability.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), TAS, Equalizer Tax application and the TideMark Systems, we noted the City had shared user ID's with various levels of access active in the system.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements as there is no accountability associated with shared user ID's.

Recommendation

Management should create and enforce a policy that requires each user to have a unique ID, change the passwords to the default system ID's, restrict access to default and administrative ID's, minimize the use of generic ID's, and turn audit on to log activity.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-39 – DWSD Network – Non unique User ID's

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Authentication mechanism should be established for information systems that provides for individual accountability.

Condition

During our test work over the IT General Controls related to the Detroit Water and Sewerage Department's IT Network, we noted the City had three shared ID's and nonunique user ID's.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements as there is no accountability associated with shared ID's.

Recommendation

Management should create and enforce a policy that requires each user to have a unique ID, change the passwords to the default system ID's, restrict access to default and administrative ID's, minimize the use of generic ID's, and turn audit on to log activity.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-40 – Restricted Access to Powerful and Administrative ID's

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Appropriate controls should be in place to ensure that users are assigned access rights in accordance with their job functions as well as over the process to request, authorize, establish, issue, modify, suspend, and close user accounts and access rights to organizational information systems in a timely manner.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), MIP (General Ledger – Parking), TAS, and the Equalizer Tax application, we noted several ID's belonged to terminated individuals; however, they were still active in the system and one user was improperly granted GL Executive 1 access in DRMS instead of the requested Requisition responsibility.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements as there is no accountability associated with the terminated employees.

Recommendation

Management should create controls and procedures to suspend or disable separated employees, implement scripts to suspend ID's not used for 45-60 days, implement programs to generate reports showing ID's inactive for longer than 45-60 days, and subsequently manually suspend those ID's. Management should also suspend or disable the terminated employee ID's on a timely basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-41 – Management Review of Active Users

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place so that management/information owners conduct periodic reviews of access to the City's financial system resources and other confidential/critical data to confirm the appropriateness of these access rights.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), TAS, Equalizer Tax application, and the TideMark Systems, we noted the City does not perform a periodic review of active users and their respective access rights to identify and remove unauthorized access.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements as there could be unauthorized accounts in use.

Recommendation

Management should create and enforce a policy that requires review of user access on a periodic basis, correct user access based off of review results, and maintain before and after logs to review results.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-42 – Approval of the Segregation of Duties Matrix

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to allow for proper segregation of duties and responsibilities for authorizing transactions, recording transactions, and maintaining custody to prevent individuals from being in a position to both perpetrate and conceal an error or irregularity.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), TAS, Equalizer Tax application and the TideMark Systems, we noted the City was unable to provide documentation supporting that segregation of duties is enforced.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised as there may be inadequate segregation of duties.

Recommendation

Management should create a matrix to identify application functions that when granted together will give rise to segregation of duties conflict. Management should then follow and enforce the segregation of duties matrix to ensure that segregation of duties conflicts do not exist at the time of role/profile creation.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-43 – Configuration Changes to Systems are Tested and Approved by Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that configuration changes that are made to the IT systems are tested, validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), CBMS (DWSD), and the TideMark Systems, we noted the City did not have adequate procedures in place to log and approve configuration changes.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised as unapproved configuration changes could occur.

Recommendation

Management should create and enforce a policy to log all confirmation changes, obtain approval from authorized individuals for all configuration changes, and perform appropriate testing on all confirmation changes prior to promoting changes to production.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-44 – Access for Migrating Changes into Production

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Only a limited number of personnel should have access to migrate changes to the production environment to ensure that this process is well controlled and only tested, authorized, and properly approved changes are migrated into production.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system) system, we noted that nonunique ID's with administrative privileges were used to migrate changes into production. In addition, our test work over the IT General Controls related to the application, database, and operating systems for the PPS (Payroll System) and the Lawson System (DDOT Inventory), we noted that Program Developers have access to move program changes into production. In addition, our test work over the IT General Controls related to the application, database, and operating systems for the CBMS (DWSD), we noted that the vendor supporting the EnQuesta application had access to make changes to the application without approvals from the business application owners.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised.

Recommendation

Management should use only unique ID's to establish accountability, change passwords to the 'default' system ID's, restrict access to default, administrative, and application ID's, minimize the use of generic ID's, and when using generic ID's turn audit on to log activity. Management should also develop and enforce a policy that does not grant access to developers to promote changes into production and access to promote changes into production should be restricted to authorized individuals.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-45 – Program Developments Approved by Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that program changes and developments which are made to the IT systems are tested, validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating system for the DRMS (General Ledger system) system, we noted the City did not have documented approvals to demonstrate that version upgrades of applications were authorized.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised.

Recommendation

Management should develop and enforce a policy to obtain and retain approvals for all program developments.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-46 – System Development and Acquisition Policy

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that program changes and developments which are made to the IT systems are tested, validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating system for the DRMS system (General Ledger system), we noted the City did not have documented approvals to demonstrate that version upgrades of applications were tested as required by the program development policy.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised.

Recommendation

Management should develop and enforce a policy that ensures appropriate testing on all program development projects is performed prior to promoting changes to production, that all program developments are tested and results are retained, and approval from authorized individuals is obtained for all program development projects.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-47 – User Access Requests are Authorized by Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that users are assigned access rights in accordance with their job functions as well as over the process to request, authorize, establish, issue, modify, suspend, and close user accounts and access rights to organizational information systems in a timely manner.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the DRMS (General Ledger system), PPS (Payroll System), EMPAC (Inventory System for DWSD), Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), TAS, Equalizer Tax application and the TideMark Systems, we noted the City did not have adequate processes in place for adding, deleting, and modifying user access. We also noted ID's belonging to terminated employees were still active. 16 of 25 ID's selected during the testing of EMPAC did not have documentation demonstrating that the ID creation or modification was authorized. Documentation regarding new user ids is not retained for the Lawson system. 17 of 20 users in TAS were inactive. 1 administrative ID was created in the TAS system without relevant approvals as required by control design. There is no level of access indicated on the access grant request form for TideMark.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised.

Recommendation

Management should develop and enforce a policy that requires approvals from authorized individuals prior to creating new ID's and granting user access to applications. Management should create controls and procedures to suspend or disable separated employees, implement scripts to suspend ID's not used for 45-60 days, implement programs to generate reports showing ID's inactive for longer than 45-60 days, and subsequently manually suspend those ID's. Management should also suspend or disable the terminated employee ID's on a timely basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-48 – DWSD Network – User Access Modifications

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that users are assigned access rights in accordance with their job functions as well as over the process to request, authorize, establish, issue, modify, suspend, and close user accounts and access rights to organizational information systems in a timely manner.

Condition

During our test work over the IT General Controls related to the Detroit Water and Sewerage Department's IT Network, we noted the City does not have adequate processes for adding, deleting, and modifying user access.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should develop and enforce a policy that requires approvals from authorized individuals prior to creating new ID's and granting user access to applications. Management should create controls and procedures to suspend or disable separated employees, implement scripts to suspend ID's not used for 45-60 days, implement programs to generate reports showing ID's inactive for longer than 45-60 days and subsequently manually suspend those ID's. Management should also suspend or disable the terminated employee ID's on a timely basis.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-49 – Change Request Authorization

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that program changes and developments that are made to the IT systems are tested, validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the PPS (Payroll System), EMPAC, Lawson System (DDOT Inventory), CBMS (DWSD), MIP (General Ledger System for Parking), Equalizer Tax application, and the TideMark Systems, we noted 13 of 25 tested program changes in PPS did not have approvals authorizing the changes. Program change/report creation requests were not always approved by management prior to implementation for EMPAC and Lawson. Adequate controls are not in place when making program changes and creating reports out of CBMS (DWSD) system as the vendor supporting the application can make changes without approvals from business application owners. Adequate evidence is not retained regarding the program changes performed by the vendor for MIP and Equalizer. Auditable evidence is not retained regarding the program changes to demonstrate that program changes and reports created are tested for Tidemark.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should develop and enforce a policy to log all program changes, obtain approval from authorized individuals for all program changes, perform appropriate testing on all program changes prior to promoting changes to production, and obtain approval on test results from authorized individuals prior to moving changes into production.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-50 – Password Management

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that emergency program changes that are made to the IT systems are validated, approved, and logged prior to implementation into the production environment.

Condition

During our test work over the IT General Controls related to the application, database, and operating system for the Lawson System (DDOT Inventory), we noted management did not always review emergency changes to the system.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should require that all emergency changes are logged and enforce the control that approval must be obtained from authorized individuals for all emergency changes.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Item 2006-51 – Incident Log and Resolution

Type: Internal Control over Financial Reporting: Reportable Condition

Criteria

Controls should be in place to ensure that system problems that could potentially have an impact on the financial reporting process are identified and resolved in a timely manner.

Condition

During our test work over the IT General Controls related to the application, database, and operating systems for the Lawson System (DDOT Inventory) and MIP (General Ledger System for Parking), we noted the City does not have an adequate process to assign or track problems and incidents. For Lawson there is no one in-charge of the support mailbox for requests nor are they assigned to appropriate individuals for resolution. For MIP there are no procedures in place to report and track incidents regarding the application.

Cause

Internal controls were not properly established, executed, or monitored.

Effect

There is the potential that the integrity of the system could be compromised affecting the financial statements.

Recommendation

Management should implement and enforce adequate procedures to log and track problems and incidents.

Views of Responsible Officials

We have reviewed the noted observations and recommendations with which we concur. We will implement the recommendations.

Other Matters

Criteria

The Office of the Auditor General (OAG) serves as the independent internal auditing function for the City. It is essential that all organizations seeking a sound internal control environment establish a tone at the top that supports internal audit as an essential component to achieving financial, technological, and operational success.

Conditions/Recommendations – Access to Records

Sec. 4-205 of the City Charter states that the Auditor General shall have access to the financial and other records of all City agencies at any time. It was noted during the course of our audit that on numerous occasions both Auditor General staff as well as KPMG staff did not have access to various records in a timely manner, which drastically prolonged our work. The OAG and the external auditors must be given access to any financial and other records of all City agencies at any time.

View of the Auditor General

We concur that the OAG and the external auditors need unfettered access to City records in order to complete an appropriate scope of audit work. A delay in obtaining access to records severely limits our ability to reach conclusions and can significantly extend the duration of the audit work and the corresponding costs of conducting the audit. The Executive branch must inform each department that they have an obligation to provide information in a thorough and timely manner to auditors.

Conditions/Recommendations – Year-end Closing Procedures

The City issues annually a book of year-end closing procedures. The procedures include instructions to Finance Department personnel as well as instructions to personnel from other departments. A number of closing procedures were not adhered to by City personnel. City management did not adequately monitor compliance with the published closing procedures. Management should add procedures that require certain finance/accounting department personnel to monitor compliance with the closing procedures. Additionally, the OAG should consider auditing whether the Finance Department has adequately monitored compliance with the closing procedures.

View of the Auditor General

Each year, the City issues a year-end closing package that indicates what each department must do in order to close the books. The OAG audits compliance with the year-end closing package by way of our biennial audits of each department. The OAG will add to our annual audit schedule an audit of compliance of year-end closing procedures in addition to our biennial audits.

Conditions/Recommendations – Cash Count

The OAG has performed surprise cash counts and has discovered audit findings as a result. The OAG should consider performing additional regular and surprise cash counts.

View of the Auditor General

We concur and we will conduct additional cash counts on a more frequent basis.

Conditions/Recommendations – Corrective Actions

City management should report regularly on the status of corrective actions related to prior audit comments made by the OAG, the external auditors, and other third-party auditors. The OAG should review the corrective action information submitted by City management and provide City Council with comments and questions regarding the information submitted.

View of the Auditor General

Sec. 4-205 of the City Charter provides that recommendations that are not put into effect by agencies shall be reviewed by the Finance Director, who shall advise the Auditor General and the City Council of action being taken with respect to the recommendations. The audit comments of other third-party auditors as well as prior OAG audit findings are incorporated into the audit plans of the OAG.

In addition, the City Council changed to a committee structure in the fall of 2007, and the Budget, Finance & Audit standing committee was established. The committee has directed the audited department and the Finance Department to report back to the committee every quarter, until each audit comment made by the OAG has been resolved.

Conditions/Recommendations

As technology becomes more prevalent in the City's business operations, the use of computer assisted auditing tools and the ability to determine if information provided by the systems is accurate, reliable, and timely is more important than ever. The OAG should enhance its audit capabilities and resources in the area of IT.

View of the Auditor General

Due to the charter mandate of auditing every City department at least once every two years and the lack of adequate auditors, this has not been done. We will seek funding in our budget to cover the additional costs associated with IT audits and the hiring of qualified IT auditors.

Conditions/Recommendation – Audit Plan

The OAG should submit on an annual basis their audit plan to the Budget, Finance & Audit Committee.

View of the Auditor General

The OAG will submit our annual plan to the Budget, Finance & Audit committee. In addition we will submit this information as part of our budget request by way of the City's budget process so that we may obtain additional and necessary funding.

Conditions/Recommendation – Reporting

Department of Treasury guidelines require reporting of defalcations, fraud, or embezzlement to the Local Audit and Finance Division (of the State Treasury Department). Appropriate reporting guidelines need to be developed.

View of the Auditor General

We will resume the practice of submitting audit reports to the State of Michigan.